Annual Report

07

CAF

CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.
AND DEPENDENT COMPANIES THAT MAKE UP THE CAF GROUP

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CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.
AND DEPENDENT COMPANIES THAT MAKE UP THE CAF GROUP

Annual Report **2007**

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

This publication, which is also published in Basque, French and Spanish, includes the legal documentation relating to CAF and Subsidiaries.

More information on CAF and its products, together with the information required by law for shareholders and investors, can be obtained on the website www.caf.net

Letter from the Chairman

Dear Shareholder:

As in previous years, I am writing to you once again to present the Directors' Report and Financial Statements for 2007, which will be submitted for the approval of the shareholders at the Annual General Meeting.

2007 may be described as a very positive year for CAF. Sales increased significantly in line with the trend observed in prior years and we achieved an even greater rise in profit. The highest figures ever were obtained in terms of orders at 31 December 2007. In view of the economic figures at the end of 2007 and those relating to prior years, we can be very satisfied with the results obtained.

The most salient matters and information relating to 2007 are as follows:

Group profit after tax amounted to EUR 87.6 million, with profit before tax reaching EUR 98.0 million, up 130% on 2006. EBITDA was EUR 101.2 million, a notable increase on the EUR 61.8 million recorded in 2006. Cash flow before tax stood at EUR 112.4 million.

In view of these figures, we propose to the shareholders at the Annual General Meeting the distribution of a gross dividend of EUR 8.5 per share.

In 2007 the Group's sales reached EUR 874.5 million, up 8.5% on 2006.

The intense sales activity resulted in orders for a total of EUR 3,410 million at year-end, a record-breaking figure ensuring that the Company will be kept well occupied in the next few years.

With regard to the Spanish market, the most significant contracts in 2007 were as follows: 30 Civia fourth-generation commuter trains and the refurbishment of 23 TRD regional trains for Renfe, 11 100% low-floor tram units for Euskotren which will operate in Vitoria-Gasteiz, 9 units for the Bilbao underground, 5 tram units for Seville and 9 diesel-electric locomotives equipped with the most advanced traction technology for Fesur. As a result, CAF continues to consolidate its leadership position in the Spanish market which is also increasingly boosted by the agreements reached with Renfe and other companies with respect to train maintenance.

Sales activity in the area of exports has been equally intense. Worthy of note was the award of a contract to supply 27 tram units for Edinburgh as well as the contracts to supply 14 tram units for Antalya (Turkey), 18 underground train units equipped with pneumatic wheels for the Santiago de Chile underground, 9 underground train units for STC (Mexico City) and the addition of two further units to the contract to supply high-speed trains to Turkey.

Also of note was the progress achieved in the construction of the infrastructure and mobile material for the concession awarded to CAF to operate the rail transport service on the Cuautitlán-Buenavista line in Mexico State. This project has represented a challenge for the Company since it entails leading and undertaking the construction of the entire infrastructure and equipment required for this new suburban public transport system and also to operate it for a thirty-period from its entry into commercial service.

The rolling-stock business also experienced considerable growth in sales, with an increase of 26% on 2006 due, particularly, to the contribution of exports which accounted for 70% of the total amount, with various contracts in France and other European countries, North America and Asia.

The most noteworthy deliveries in Spain in 2007 included the Civia second-generation commuter train units for Renfe and various train series for the Madrid, Palma, Seville and Barcelona undergrounds.

With respect to the international market, of particular note in 2007 were the deliveries of trains for the Rome and Brussels undergrounds, the refurbishment of light units for Pittsburgh (USA) and the delivery of commuter trains for the Mexico City suburban railway concession mentioned above.

Considering the Company's more immediate future and our industry, I would like to make some final brief comments:

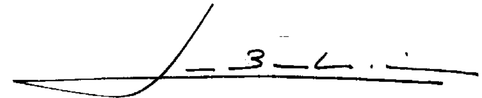
The orders on our books at 2007 year-end enable us to face the coming years with high occupation levels at our plants. Also, the first figures available for 2008 allow us to anticipate that the trend in recent years for increased sales and profits will continue.

However, growing market pressures force us to take on new challenges to improve on and persevere with those we have achieved. Therefore, we should continue with our search for technologically advanced solutions, which are also competitive in terms of prices, in order to be able to operate with guarantees in an increasingly international rail industry.

This task is not a simple one. It requires responsible leadership that encourages the professional development of our employees and their commitment to our plans. Therefore, I would like to thank everyone who works for the Company for their efforts and dedication which are undoubtedly a key factor in CAF's positive performance and in the sound results we have achieved in recent years. I am also sure that they will continue to be firmly committed to the Company's global objectives so that we may face the near future with optimism.

To conclude, I would like once again to thank our Shareholders for the support they have shown the Company, which encourages us to keep working with the same determination and enthusiasm as ever to attain all our goals.

Thank you very much,



José María Baztarrica Garijo
Chairman and CEO

CITY/ SUBURBANS

Subway Trains

- Algiers
- Barcelona
- Bilbao
- Brussels
- Hong Kong
- Madrid
- Malaga
- Mexico
- Palma (Mallorca)
- Rome
- Santiago de Chile
- São Paulo
- Seville
- Washington

Articulated Light Railway Vehicles

- Amsterdam
- Buenos Aires
- Monterrey
- Pittsburgh
- Sacramento
- Valencia

Regional Trains

- Red Nacional de Ferrocarriles Españoles (RENFE)
- Eusko Trenbideak-Ferrocarriles Vascos (ET/FV)
- Ferrocarriles Españoles de Vía Estrecha (FEVE)
- Ferrocarrils de la Generalitat de Catalunya (FGC)
- Secretaría de Comunicaciones y Transportes (Mexico)
- SFM de Mallorca
- Caminhos de Ferro Portugueses
- Finnish Railways (VR Ltd)
- Heathrow Airport Express
- Hong-Kong Airport Express
- Irish Rail
- Northern Ireland Railways
- Northern Spirit

Streetcars

- Antalya
- Bilbao
- Edinburgh
- Lisbon
- Seville
- Valencia
- Vélez-Málaga
- Vitoria

MAIN LINES

High Speed Trains

- High Speed Trains and Variable Gauge Trains S-120 (RENFE)
- High Speed Trains for the Madrid-Seville Line
- Shuttle Trains S-104 (RENFE)
- High-speed trains for Turkey

Intercity Trains

- Tilting System ADR Trains
- Diesel trains for Algeria
- Intercity, Push-Pull Service

Passenger Cars

- Saloons and Luxury Lounge
- Sleeping Cars and Couchettes
- Restaurant and Cafeteria Cars

CAF

An international leader in its technology, quality and service.

Directors' Report of the Consolidated Group

Earnings

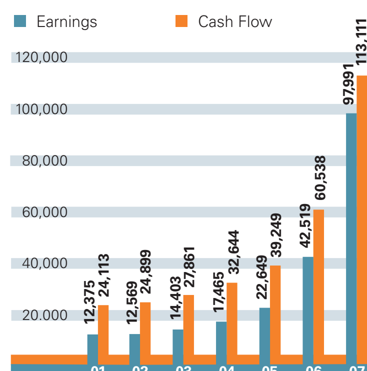
The income statement reflects a post-tax profit of approximately EUR 87,626 thousand, up 153% on last year.

The aggregates in 2007 were as follows:

- Profit after tax amounted to EUR 87,626 thousand, up approximately 153% on 2006.
- The depreciation and amortisation charge of EUR 15,120 thousand, plus the profit for the year before tax, generated a cash flow of EUR 113,111 thousand.
- Revenue amounted to EUR 874,474 thousand in 2007, up 8% on 2006.
- The backlog showed a balance of EUR 3,410,124 thousand at 31 December 2007. This is higher than the 2006 year-end figure and will enable the Company to continue its normal business activities.
- The proposal for the distribution of earnings is in line with the policy of prior years of strengthening the Company's equity. It is proposed to use EUR 29,139 thousand of the profit after tax to pay dividends and to allocate EUR 73,942 thousand to voluntary reserves.
- If the proposed distribution of profit is approved, the Company's equity will be increased by the profit appropriated to reserves to EUR 261,079 thousand.
- Lastly, as required by law, CAF declares that neither it nor its subsidiaries purchased or held treasury shares in the course of 2007.

Groups income and cash flow before taxes

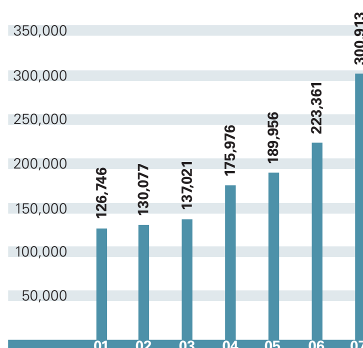
(thousand of euros)



* Consolidated data 2003
2004, 2005, 2006 and 2007 consolidated data, IAS.

Groups sh areholder's equity

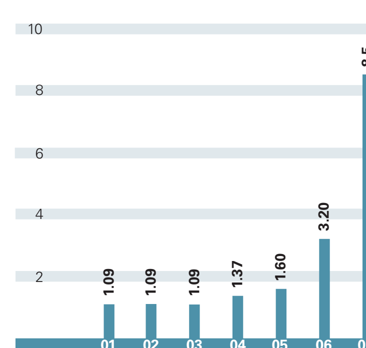
(thousand of euros)



* Consolidated data 2003
2004, 2005, 2006 and 2007 consolidated data, IAS.

Evolution of dividends/shares

(in euros)



Commercial activity

The order book at year end totalled EUR 3,410 million. The export market accounted for 30% of the total.

In line with previous years, commercial activity was very intense in 2007, and contracts worth EUR 970 million were won, with a significant balance between the Spanish market and the export market. At year-end the backlog amounted to EUR 3,410 million.

This backlog is once again the highest in CAF's history, with an increase in the export market percentage as a result of the orders placed in that market, which now represent 30% of the total.

The contracts placed by RENFE related basically to 30 Civia IV commuter units and to the order for a prototype three-car Civia III train with CAF technology traction equipment.

Noteworthy in the Spanish market was the order placed for nine diesel-electric/electric locomotives for the freight transport company FESUR, which reaffirms CAF's commitment to this area, where it has created a technological platform for line locomotives known as BITRAC.

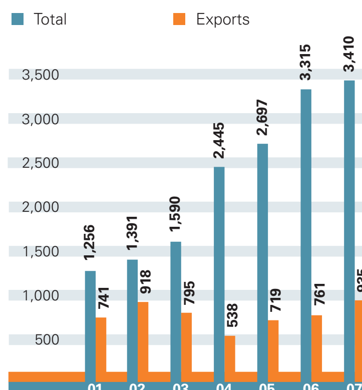
Nine trains were also ordered for the Bilbao underground, with the highly important novelty of being equipped with CAF technology traction equipment, which represents further progress in the Company's technological commitment in this field.

A contract was entered into with EUSKOTREN for the supply of eleven tram units for the city of Vitoria, the contract for which was disclosed in last year's report and which will have the important new feature of also incorporating CAF traction equipment. In addition, FEVE placed an order for the supply of 12 diesel units.

Noteworthy in relation to exports was the order for 20 trains for the Santiago de Chile underground, due both to the size of the project and to the fact that it enabled CAF to penetrate a market that it had set its sights on some time ago.

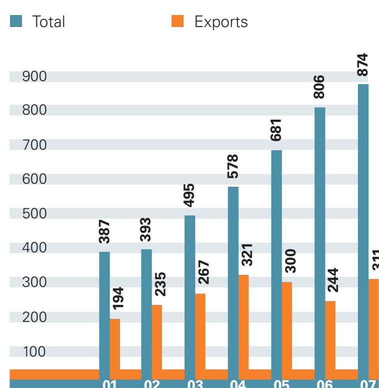
Order Book

(million of euros)



Revenue

(million of euros)



* Consolidated data 2003
2004, 2005, 2006 and 2007 consolidated data, IAS.

Also, nine trains were ordered for the Mexico underground, enabling CAF to continue to serve this customer. 14 tram units were ordered for the city of Antalya (Turkey), which signalled CAF's penetration of the export market with this product.

The maintenance business continued to gain strength and now accounts for 43% of the backlog, with growth of 24% with respect to 2006.

This growth was due mainly to the fact that maintenance services were requested for a significant number of the new contracts, 9 locomotives for FESUR for an extendible 5-year period, 30 CIVIA IV units for RENFE for 14 years, 6 trains for the Mallorca underground for 17 years and 11 tram units for Vitoria for 4 years.

CAF continues to enjoy a sound position in the urban transport market and the strategy to promote tram units was strengthened at the beginning of this year with the order placed for 27 units for the city of Edinburgh, including maintenance for 30 years. Also, the tender for a significant number of units for the Madrid underground has just been published, which enables CAF to view the future in this area with some optimism.

Sales of the rolling stock business remained at very positive levels, similar to those reported in prior years.

Industrial activity

Variable gauge high-speed trains, shuttle, intercity, suburban and underground trains, articulated units, trams and locomotives.

2007 saw the delivery of the last five units for the Palma de Mallorca underground, the last eight units for the Rome underground and the last seven units for the Barcelona underground, series 5000, Line 5.

Also, in 2007 delivery was made of 13 refurbished trains for Pittsburgh, 9 units for Line 1 of the Barcelona underground, 8 trains for the Seville light rail, 38 CIVIA II and III commuter trains for RENFE, 17 trains for STIB in Brussels, 14 single-voltage and 36 dual-voltage series 3000 trains for the Madrid underground, the first diesel train for Algeria, 20 trains for the Mexico underground and the first high-speed train for Turkey.

Noteworthy as regards other projects at various different phases of development were the advanced stage of the manufacture of the first units for the Algiers underground and of the first regional high-speed AVR trains for RENFE and the commencement of the manufacture of structures for the Bilbao underground.

Worthy of mention in relation to the other project orders were the engineering activities for the regional diesel and electric trains for RENFE, the Vitoria underground, the Antalya (Turkey) tram units, the Seville (Metrocentro) tram system, the new project for Ferrocarriles de la Generalitat de Catalunya FGC and the BITRACC locomotives for FESUR.

The most recently commissioned projects include most notably the start-up and commencement of the engineering work for the new CIVIA IV commuter train project for RENFE and the trains for the Santiago de Chile underground.

The most important manufacturing projects in 2007 were as follows:

Nº OF VEHICLES

Train unit (M+M) for the Palma de Mallorca underground	10
Train unit (2Rcp+2M1+2M2) for the Rome underground	48
S/5000 train unit (MA1+MB1+R + MB2 + MA2) for Line 5 of the Barcelona underground	35
S/6000 train unit (MA1+MB1+R+MB2+MA2) for Line 1 of the Barcelona underground	45
Train unit (A+B), LRV Pittsburgh refurbished (USA)	26
Seville light rail train unit (A+B+C+D+E)	40
5-car CIVIA II commuter train unit (A1+A2+A3+A4+A5) for RENFE	105
3-car CIVIA II commuter train unit (A1+A2+A3) for RENFE	6
5-car CIVIA III commuter train unit (A1+A2+A3+A4+A5) for RENFE	5
Train unit (M+R+N) for STIB in Brussels	51
6-car S/3000 single-voltage train unit (M1+R1+S1+S2+R2+M2) for the Madrid underground	84
4-car S/3000 dual-voltage train unit (M1+S1+R2+M2) for the Madrid underground	144
Diesel train unit (M1+R+M2) for Algeria	3
Train unit (M1+M2+R+N) for the Mexico underground	61
High-speed train unit (TCF+TCB+MIF1A+MIF1B+MIF2+MIFC) for Turkey	6
Trailer cars (R) for CIVIA trains	3
TOTAL	**672**

BOGIES

With welded steel chassis (power car + trailer)	1,272

COMPONENTS

Mounted axles	5,457
Loose axle bodies	3,760
Wheels	40,041
Crane wheels	443
Brackets	294
Couplers	915
Repaired diminishers	77
Rings	35

Other supplementary materials manufactured were as follows:

Steel	43,345 tonnes

The repairs carried out included:

Inspection of S/550 bogies for the Bilbao underground	32
TRD resetting (M1+M2)	4
s/200 train unit (M-R-R-M) for Euskotren	12
Inspection of SMF bogies	3

Human resources and environment

A recruitment drive to significantly increase numbers of qualified line personnel was carried out at the Parent and Group subsidiaries, resulting in a rise in total headcount.

The changes in the consolidated Group's labour force in 2007 were as follows:

	Permanent	Total	Annual Average
31-12-06	3,805	4,141	4,016
31-12-07	4,152	4,415	4,321

The Parent's headcount remained virtually unchanged with respect to 2006. A significant effort was made to hire qualified technicians at both the Parent and the Group's subsidiaries and the overall headcount of the Group increased.

Occupational accidents remained at similar levels to 2006, higher than the targets set for 2007.

The measures envisaged in the Prevention Plan were implemented and progress was made in activities such as the assessment of specific risks (ATEX Regulations), psychosocial risks and occupational risk prevention legislation relating to outsourcers.

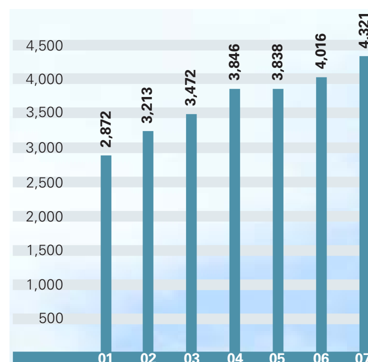
In March the Recertification Audit of the Environmental Management System pursuant to the ISO 14001:2004 standard was carried out.

Greenhouse gas emissions were slightly above the annual allocation but were covered by the rights available for 2007.

The measures envisaged in the Training Plan for 2007 were implemented. Work on the redesign of the graduate evaluation and development system was stepped up, as was that on the executive skills programme through a coaching plan.

Employees

(number of persons)

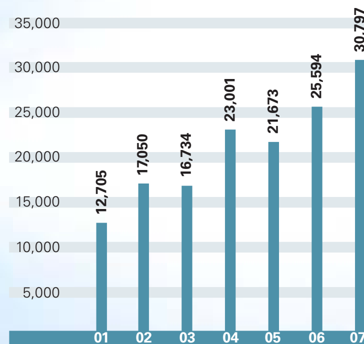


Investments in 2007

Investments totalled EUR 30,797 thousand, targeting mainly increased productivity, workplace safety and improved environmental conditions.

The capital expenditure at CAF's plants in 2007 amounted to EUR 30,797 thousand (disregarding the exchange rate effect), continuing with the prior years' rate of investments. These investments focused mainly on increasing productivity and safety in the workplace and on improving environmental conditions.

Investments
(thousand of euros)



* Consolidated data 2003
2004, 2005, 2006 and 2007 consolidated data, IAS.

The most representative investments made are as follows:

- The main investments in the Vehicles Unit were, on the one hand, in the Bogies Area, the complete renovation of the machining and painting installations and the rationalisation of the manufacturing process and, on the other, in the Vehicle Finishing Area, the assembly lines were redesigned, aimed at increasing capacity and productivity, with the installation of new painting and corundolite protection sheds.

- The main objective of the investments made in the Rolling Stock Unit in 2007 was to renew the train wheel forging, rolling and heat treatment processes. This renewal process was achieved principally through the acquisition of new equipment: revolving furnace and presses, and the installation and start-up of the new roller and the heat treatment line, which made it necessary to adapt certain ancillary facilities (cooling, electric power, etc.) and required a significant amount of civil engineering work.

- In the Technology Area, work continued on the renewal and improvement of the design system and its extension with the creation of new jobs. Also, the servers were endowed with greater calculation capacity which, combined with the development of various work tools, will increase capacity in the development of new projects.

- Lastly, in relation to the Group's expansion and the new plants created, significant investments were made in the implementation of the production facilities required at these new workplaces.

Technological development

The most important commissions this year were related to the AVI 2015 project (high-speed interoperability). The consolidation of the technological subsidiaries is highly noteworthy.

One of the most salient features of technological development at CAF was that it has passed from being an activity carried on internally within CAF to one led by CAF R&D (business R&D Unit of the Basque technology network), but distributed among the technology subsidiaries.

CAF R&D's activities relating to basis aspects of the technologies used by CAF are complemented with its work to coordinate the developments of its subsidiaries in order to guarantee synergies and achieve better all-round results for the Group.

The technological developments of both CAF R&D and the subsidiaries give rise to a very significant level of cooperation with universities and technology centres, which has become increasingly wide-reaching in terms of both the number of centres involved and the importance of the projects undertaken.

The most significant projects carried out in 2007 related to the AVI 2015 (High-Speed Interoperability) project and the commencement of the 320 Km/h train project (UIC) and variable gauge project, thereby putting the technological advances achieved in 2006 into practice.

The continuous current traction equipment projects and the related trials, the commencement of the alternating current project and the work relating to signalling constitute highlights of the work performed in 2007.

To supplement the foregoing, and in response to growing demand, CAF also initiated the development of trams without overhead lines.

The consolidation of the technology subsidiaries is also worthy of mention. In 2007 Trainelec commenced operations and NEM, for maintenance technologies, and DSM4, for software development, were created.

The most significant projects on which the Group worked in 2007 were as follows:

- Málaga light rail.
- Diesel trains for RENFE - Regionales.
- Electric trains for RENFE - Regionales.
- Austenitized stainless steel boxes for the Mexico underground.
- Algiers underground.
- Civia III.
- Trams for Vitoria with their own traction equipment.
- Trams for Antalya.

The following projects were also initiated:

- Bitrac locomotives.
- Santiago de Chile underground.

Also, to support the commercial activities in general and exports in particular, various preliminary projects and technical proposals were carried out, including most notably:

For the Spanish market:

- Trams for Vitoria and Seville (Metrocentro).
- Civia IV trains for RENFE.
- Offers for Feve.
- Diesel electric locomotives for Fesur.
- Bilbao underground (series 3).

For the export market:

- Saudi Arabia, push-pull trains.
- Trams for Antalya.
- Trams for Edinburgh.
- High-speed trains for Turkey.
- Chile underground.
- Line A of Mexico underground.
- Sao Paulo underground.
- Electric trains for CPTM.
- Charles de Gaulle Express.
- Delhi underground.

Risk management policy

Written policies were established in relation to global risk management and other areas.

The most significant risks facing the Company can be grouped together in the following categories:

1. Financial risks

The financial risk management policy adopted by the CAF Group focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects the Group’s financial performance.

The Group's Financial Department identifies, assesses and hedges financial risks by establishing written policies to manage overall risk and specific risk areas such as foreign currency, interest rate and liquidity risks, the use of derivative and non-derivative instruments, the investment of cash surpluses and variances from budgets.

a) Market risk

The various CAF Group companies operate internationally and, therefore, are exposed to foreign currency risk in their foreign currency transactions (particularly the US dollar and the euro). Currency risk may arise on future commercial transactions, balance sheet assets and liabilities and net investments in foreign operations.

The Group companies use forward contracts to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. This risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the functional currency of the Group (euro).

The Group's standard practice is to fully hedge the market risk associated with contracts denominated in currencies other than its functional currency. The hedges are intended to avoid the impact of currency fluctuations in the various agreements entered into, so that the Group's results present fairly its industrial and service activity.

For the most significant raw materials, the Group places orders and agrees on the price when a new project is commissioned. The risk of a rise in raw material prices having an adverse effect on the contractual margins is thus hedged.

b) Credit risk

The Group's accounts receivable and work in progress relate mainly to customers abroad. Contracts generally include progress billings.

The Company's standard practice is to hedge against the risk of termination or default associated with contracts entered into with customers in non-OECD countries by taking out export credit insurance policies, pursuant to the rules in the OECD Consensus on instruments of this nature.

In addition, the Group has obtained firm commitments from certain banks to purchase its accounts receivable, without recourse. Under these agreements, the Group pays a fee to the banks for assuming its credit risk, plus interest and a spread on the financing received.

c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's obligations on a timely basis.

The CAF Group manages liquidity risk by:

- Seeking the highest possible level of self-financing with respect to each of the contracts.
- Maintaining undrawn credit balances.

d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises on borrowings.

The CAF Group's general policy is to resort in exceptional circumstances to third-party borrowings only in the form of short-term debt at floating rates tied to market indexes, normally Euribor, which substantially mitigates the interest rate risk.

e) Risks arising from variances from project budgets

Variances from project budgets that served as the basis for drawing up the various offers are covered through the use of a detailed system for reporting each of the cost items, which compares on an ongoing basis the budget for that item with the actual situation regarding the costs of each project, with continuous monitoring of these data using an internal procedure created for this purpose in which all the departments involved participate.

2. Risks arising from environmental damage

CAF is fully committed to protecting the environment. With that objective, it has implemented the principles of the EU's environmental action programme based on preventative measures and the rectification of problems at source. To that end, the Company has introduced a programme of measures in various environmental areas relating to the atmosphere, spills, waste, the consumption of raw materials, energy, water and noise and has obtained certification under the ISO14001 standard.

3. Risks arising from harm caused to third parties as a result of deficiencies or delays in the provision of services

All CAF's plants use the most advanced technology available in the market and state-of-the-art techniques in order to optimise production pursuant to the ISO 9001 and 9002 standards.

4. Occupational risks or damage to plant assets

CAF has an Occupational Risk Prevention System audited by an independent firm. The Prevention System Manual defines, inter alia, the risk assessment, accident investigation, safety inspection, health monitoring and training activities. There is also an annual Prevention Plan for the planning of preventative measures.

CAF also has an employee Training Plan.

Corporate information

Disclosures required by Article 116 bis of the Spanish Secutities Market Law

a) Capital structure, including securities not traded on a regulated EU market, indicating, where appropriate, the various classes of shares and, for each class of shares, the rights and obligations conferred by the shares and the percentage of share capital that they represent.

Pursuant to Article 5 of the corporate bylaws, the Company's share capital consists of 3,428,075 fully subscribed and paid shares of EUR 3.01 par value each, all of the same series and all carrying the same rights and obligations. At least 100 shares must be held in order to be able to attend and vote at General Meetings. No shares have been issued that could be converted into or exchanged for CAF shares.

All the shares are of the same class and no treasury shares are held.

b) Restrictions on the transferability of shares.

The Company's bylaws do not place any restrictions on the transferability of the shares, without prejudice to the applicability of certain rules, as described below.

As CAF is a listed company, the acquisition of certain significant ownership interests must be notified to the issuer and to the Spanish National Securities Market Commission (CNMV), pursuant to Article 53 of Spanish Securities Market Law 24/1988, Royal Decree 1362/2007, of 19 October and CNMV Circular 2/2007, of 19 December, which establish as the first notification threshold 3% of the share capital or voting rights.

Also, because CAF is a listed company, the acquisition of a percentage of ownership of 30% or more of the Company's voting power requires that a takeover bid be launched, in the terms provided for in Article 60 of the Spanish Securities Market Law 24/1988 and Royal Decree 1066/2007.

c) Significant direct or indirect ownership interests in the share capital at 31/12/07.

Name of Shareholder	*Direct %*	*Indirect %*	*Total %*
Cartera Social, S.A.	24.55	0.000	24.55
Caja de Ahorros y Monte de Piedad de Guipuzkoa y San Sebastián	10.996	0.000	10.996
Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea	5.010	5.807	10.817
Bestinver Gestión, S.A., S.G.I.I.C.	0.000	9.963	9.963
BNP Paribas Segurities Services Lux A/C Ceda	5.473	0.000	5.473
Caja de Ahorros de Vitoria y Álava	3.021	0.000	3.021

d) Restrictions on voting rights.

There are no legal or bylaw restrictions on exercising voting rights, other than those applicable to any corporation; however, as indicated above, in order to be able to attend General Meetings the bylaws state that at least 100 shares must be held, although in this case shareholders owning fewer shares may group together and be represented by another shareholder with which they jointly own 100 or more shares.

In order to be able to attend General Meetings, shareholders must have registered their shares in their name in the corresponding book-entry register at least five days before the date on which the General Meeting is to be held.

e) Side agreements.

CAF is not aware of the existence of any side agreements of the nature defined in Article 112 of Spanish Securities Market Law 24/1988, of 28 July, affecting the regulation of the exercise of voting rights at General Meetings or which restrict or condition the free transferability of its shares.

f) Rules applicable to the appointment or replacement of the members of the managing body and to the amendment of the Company's bylaws.

1. Appointment and replacement

The directors shall be designated by the General Meeting or Board of Directors pursuant to the Spanish Companies Law and to the bylaws of CAF.

Proposals to appoint or re-appoint directors submitted by the Board of Directors to the shareholders at the General Meeting and the appointment resolutions adopted by the Board by virtue of its co-option powers must be preceded by the related proposal of the Appointments and Remuneration Committee in the case of independent directors and by a prior report in the case of the other directors.

When the Board does not take heed of the proposals of the Appointments and Remuneration Committee, it must give the reasons for which it has taken that course of action and record such reasons in the minutes.

When selecting a candidate, the Board shall attempt to ensure that that person has acknowledged solvency, competence and experience, with special care being taken when selecting persons to hold office as independent directors.

The Board may not propose or designate as independent directors persons who have or have had any involvement in the management of the Company or of the companies in its Group or persons owning a significant shareholding or related for family, up to the third degree of consanguinity or second degree of affinity, professional or commercial reasons to the executive directors or to other senior executives of CAF, CAF Group companies or owners of significant shareholdings.

The Board of Directors, in the exercise of its functions of submitting proposals to the General Meeting and co-option to fill vacancies, shall attempt to ensure that in the composition of the Board the non-executive directors represent a majority with respect to the executive directors, that the independent directors represent at least one-third of the total number of directors and that the proportion of nominee and independent directors reflects the proportion of the Company's share capital represented by the nominee directors. However, this last rule may be applied with

greater flexibility, allowing a greater proportion of nominee directors, when a large number of shareholders are represented on the Board and there are no ties among them.

The Board of Directors shall be made up of a minimum of seven and a maximum of fifteen members, and directors do not have to be shareholders. The prohibitions and incompatibilities provided for by law shall apply.

The directors shall hold office for five years. They may be re-appointed one or more times for periods of equal duration. The appointment of directors shall take effect from the date of their acceptance. The composition of the Board of Directors shall be renewed when the mandate of each director expires.

If during the period for which the directors were appointed vacancies arise, the Board of Directors may fill the vacancies from among the shareholders until the next General Meeting is held. Should the vacancy relate to a director holding the position of Chairman or CEO, the Board of Directors may fill the vacancy and appoint, temporarily, a Chairman. It may also appoint a CEO with the vote in favour of two-thirds of the Board members. Such appointments shall be fully effective until the next General Meeting is held.

The directors shall leave office in the terms provided for in the legislation applicable at any given time. Directors shall leave office when the period for which they were appointed has elapsed, unless they are re-appointed, and when they are removed by the shareholders at the General Meeting pursuant to the powers conferred on them.

Also, the Regulations governing the Board of Directors state that directors must tender their resignation to the Board of Directors and resign if the latter deems it appropriate, in the following cases:

a) In the case of nominee directors, when they, or the shareholders represented by them, transfer their ownership interest in the Company.

b) When they become subject to any incompatibility or prohibition provided for by law.

c) When they are prosecuted for a purported offence or are subject to disciplinary proceedings due to a serious or very serious infringement initiated by the supervisory authorities.

d) When they are seriously reprimanded by the Board of Directors on the basis of a report of the Audit Committee as a result of having failed to fulfil their obligations as directors.

e) When there is a conflict of interests with the Company or when they fail to fulfil their duties of communication and abstention.

f) When they fail to fulfil their duty of no-competition.

The directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any case, directors must inform the Board and, where appropriate, resign in cases in which the repute and reputation of the Company might be harmed.

2. Amendment of the bylaws

The procedure for amending the corporate bylaws is regulated by Article 144 of the Spanish Companies Law, and the change must be approved by the General Meeting with the quorum and, where appropriate, majority vote, provided for in Article 103 of that Law.

The powers of the General Meeting provided for in Article 13 of the bylaws and Article 4 of the Regulations governing the General Meetings of CAF expressly include the amendment of the bylaws and higher majorities than those established by law are not required.

g) Powers of the members of the Board of Directors and, in particular, powers relating to the possibility of issuing or repurchasing shares.

The Chairman, José María Baztarrica Garijo, and the CEO, Andrés Arizkorreta García, have been delegated all the powers of the Board of Directors other than those that may not be delegated by law.

The Executive Director Alejandro Legarda Zaragüeta, General Manager of CAF, has wide-reaching powers of attorney in relation to representation, hiring, bank accounts, management and the disposal of assets.

The shareholders at the Annual General Meeting held on 2 June 2007 authorised the Board of Directors to derivatively acquire shares of CAF, pursuant to Article 75 of the current Spanish Companies Law. This acquisition may be made directly by CAF or indirectly through its subsidiaries, through purchase and sale transactions or share exchanges or by any other legally permitted means and for the market price of the shares. The maximum number of shares to be acquired may not exceed, together with such shares as might already be held by the acquiring Company and its subsidiaries, the legal limit of 5% of the share capital provided for in Additional Provision One of the Spanish Companies Law, without prejudice to the application of such lower limits, within the legal limit approved at that Annual General Meeting, as the Board of Directors might or might have approved. The authorisation has a duration of 18 months from the date of the Annual General Meeting.

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h) Significant agreements entered into by the Company which will come into force, be modified or terminate in the event of a change in control over the Company resulting from a takeover bid, and their effects, except when dissemination thereof may be seriously detrimental to the Company. This exception will not apply when the Company is legally required to disclose this information.

No significant agreements have been entered into by the Company that will come into force, be modified or terminate in the event of a change in control over the Company resulting from a takeover bid.

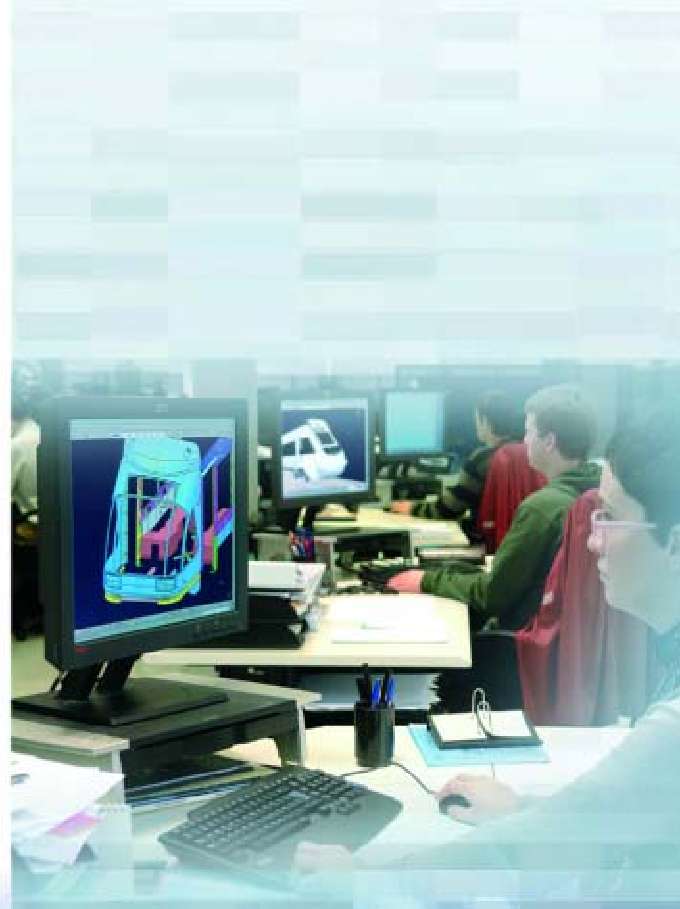
i) Agreements between the Company and its directors, management personnel or employees which provide for termination benefits when the latter resign or are dismissed without justification or if the employment relationship ends as a result of a takeover bid.

There are no agreements between the Company and its directors, management personnel or employees that provide for termination benefits when the latter resign or are dismissed without justification or if the employment relationship ends as a result of a takeover bid.

Outlook

The short-term outlook for CAF may be summarised in the following initiatives:

- Gradual increase in production capacity and standardisation of activities to cater for the increasing backlog.
- Strengthening of the Company in the industrial, technological and organisational areas through assets investments.
- Development of new products and implementation of advanced comprehensive project management systems.
- Increased presence of CAF in international railway material markets.
- Development of the expansion potential in railway service business lines (concessions).
- Promotion of the rolling stock and maintenance area.



Subsequent events

At 29 February 2008, the Group had a firm backlog of EUR 3,305,537 thousand.

No other significant events occurred subsequent to 2007 year-end.

Letter from the Auditor

Deloitte.

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España

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Construcciones y Auxiliar de
Ferrocarriles, S.A.:

1. We have audited the consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. (the Parent) and Subsidiaries composing the CAF Group (see Notes 1 and 2-f), which consist of the consolidated balance sheet at 31 December 2007 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

2. As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2007 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity, the figures for 2006. Our opinion refers only to the consolidated financial statements for 2007. On 29 March 2007, we issued our auditors' report on the 2006 consolidated financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying consolidated financial statements for 2007 present fairly, in all material respects, the consolidated equity and consolidated financial position of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries at 31 December 2007 and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union applied on a basis consistent with that of the preceding year.

4. The accompanying consolidated directors' report for 2007 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2007. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries.

DELOITTE, S.L.
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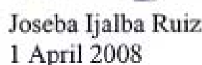


Joseba Ijalba Ruiz
1 April 2008

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, folio 188, sección 8, hoja M-54414, inscripción 96, C.I.F.: B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso - 28020 Madrid

Member of
Deloitte Touche Tohmatsu

Financial Statements of the Consolidated Group

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

Consolidated balance sheets

at 31 December 2007 and 2006 (Notes 1 to 6) (Euros)

Assets	31-12-07	31-12-06 (*)
Non-current assets:		
Other intangible assets, net (Note 7)	197,555,823	101,288,883
Property, plant and equipment, net (Note 8)	171,922,997	155,609,574
Investments accounted for using the equity method (Note 9)	2,064,445	835,038
Non-current financial assets (Notes 9 and 17)	35,822,371	34,354,571
Deferred tax assets (Note 18)	34,457,599	13,430,075
Total non-current assets	441,823,235	305,518,141
Current assets:		
Inventories (Note 11)	18,929,455	50,893,181
Trade and other receivables (Note 12)	334,403,347	402,123,753
Receivable from associates (Note 10)	(31,160)	54,234
Other current financial assets (Note 14)	6,549,907	2,712,565
Derivative financial instruments	—	6,877,996
Current financial assets (Note 13)	448,284,939	261,068,814
Current tax assets (Note 19)	22,750,673	16,637,341
Cash and cash equivalents	24,211,416	9,898,296
Other current assets	323,946	819,940
Total current assets	855,422,523	751,086,120
Total Assets	1,297,245,758	1,056,604,261

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

Equity and Liabilities	31-12-07	31-12-06 (*)
Equity:		
Of the Parent (Note 14)		
Share capital	10,318,506	10,318,506
Share premium	11,863,347	11,863,347
Revaluation reserve	58,452,208	56,508,846
Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method	136,069,902	106,058,426
Translation differences	(3,914,098)	3,956,727
Valuation adjustments	496,558	16,234
Net profit for the year	87,626,132	34,638,698
Equity attributable to shareholders of the Parent	**300,912,555**	**223,360,784**
Minority interests	**3,573,929**	**2,670,387**
Total equity	**304,486,484**	**226,031,171**
Non-current liabilities:		
Long-term provisions (Note 3-ñ)	**871,967**	**1,301,422**
Bank borrowings (Note 16)	**161,231,993**	**96,709,370**
Derivative financial instruments	—	**3,989,921**
Other non-current financial liabilities (Notes 3-k, 3-l, 9 and 15)	**91,369,859**	**79,896,655**
Deferred tax liabilities (Note 18)	**21,633,686**	**24,491,394**
Total non-current liabilities	**275,107,505**	**206,388,762**
Current liabilities:		
Bank borrowings (Note 16)	**26,109,771**	**270,010**
Derivative financial instruments (Note 17)	**1,264,566**	—
Other current financial liabilities	**18,024,968**	**18,721,553**
Payable to associates (Note 10)	**1,139,470**	**939,879**
Trade and other payables		
Advances received on orders	257,496,435	249,166,941
Accounts payable for purchases and services	233,876,639	223,742,192
	491,373,074	472,909,133
Short-term provisions (Note 20)	**114,995,464**	**82,309,981**
Other payables		
Tax payables (Note 19)	48,864,945	33,574,439
Other current liabilities (Note 9)	15,879,511	15,459,333
	64,744,456	**49,033,772**
Total current liabilities	**717,651,769**	**624,184,328**
Total equity and liabilities	**1,297,245,758**	**1,056,604,261**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 26 are an integral part of the consolidated balance sheet at 31 December 2007.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

Consolidated income statements

for the years ended 31 December 2007 and 2006 (Notes 1 to 6) (Euros)

(Debit) Credit	2007	2006 (*)
Continuing operations:		
Revenue (Note 6)	874,474,241	805,727,489
+/- Change in inventories of finished goods and work in progress (Note 11)	(111,891,634)	(82,481,259)
Procurements (Notes 3-m and 21)	(314,182,149)	(349,460,291)
Other operating income	2,011,416	1,168,225
Staff costs (Note 22)	(200,129,860)	(188,223,776)
Other operating expenses	(149,106,673)	(125,849,385)
Depreciation and amortisation charge (Notes 7 and 8)	(15,119,851)	(18,019,073)
Profit from operations	**86,055,490**	**42,861,930**
Finance income (Note 13)	12,236,430	1,624,829
Finance costs (Note 16)	(715,618)	(2,897,796)
Financial profit (loss)	**11,520,812**	**(1,272,967)**
Result of companies accounted for using the equity method (Note 9)	387,068	297,788
Other gains or losses (net) (Notes 3-b and 8)	27,750	632,726
Profit before tax	**97,991,120**	**42,519,477**
Income tax (Notes 3-m, 18 and 19)	(9,690,495)	(16,369,017)
Positive adjustments to income tax (Note 3-m)	—	8,500,000
Profit for the year from continuing operations	**88,300,625**	**34,650,460**
Profit for the year	**88,300,625**	**34,650,460**
Attributable to:		
Shareholders of the Parent	87,626,132	34,638,698
Minority interests	674,493	11,762
Earnings per share (in euros) (Note 3-r)		
Basic	25.56	10.10
Diluted	25.56	10.10

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 26 are an integral part of the 2007 consolidated income statement.

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

Consolidated statements of changes in equity

for the years ended 31 December 2007 and 2006 (Note 14) (Euros)

	Share Capital	Share Premium	Unrealised Asset and Liability Revaluation Reserve	Legal Reserve	Other Voluntary Reserves	Reserves of Consolidated Companies	Valuation Adjustments	Translation Differences	Net Profit for the Year	Minority Interests	Total Equity
Balances at 31 December 2005 (*)	**10,318,506**	**11,863,347**	**56,551,093**	**2,063,704**	**88,468,191**	**2,369,144**	**(984,460)**	**1,163,690**	**18,143,386**	**2,658,625**	**192,615,226**
Distribution of profit											
To reserves	—	—	—	—	8,921,574	3,736,892	—	—	(12,658,466)	—	—
Dividends	—	—	—	—	—	—	—	—	(5,484,920)	—	(5,484,920)
Translation differences	—	—	—	—	—	—	—	(2,334,791)	—	—	(2,334,791)
Change in translation differences due to hedging	—	—	—	—	—	—	—	5,127,828	—	—	5,127,828
Change in hedging reserves	—	—	—	—	543,993	5,792	1,000,694	—	—	—	1,550,479
Net profit for 2006	—	—	—	—	—	—	—	—	34,638,698	—	34,638,698
Profit for the year attributable to minority interests	—	—	—	—	—	—	—	—	—	11,762	11,762
Changes in the scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	(42,247)	—	—	(50,864)	—	—	—	—	(93,111)
Balances at 31 December 2006 (*)	**10,318,506**	**11,863,347**	**56,508,846**	**2,063,704**	**97,933,758**	**6,060,964**	**16,234**	**3,956,727**	**34,638,698**	**2,670,387**	**226,031,171**
Distribution of profit											
To reserves	—	—	—	—	23,419,618	249,240	—	—	(23,668,858)	—	—
Dividends	—	—	—	—	—	—	—	—	(10,969,840)	—	(10,969,840)
Translation differences	—	—	—	—	—	—	—	(7,870,825)	—	—	(7,870,825)
Change in translation differences due to hedging	—	—	—	—	—	—	(3,794)	—	—	—	(3,794)
Change in hedging reserves	—	—	—	—	—	—	484,118	—	—	—	484,118
Net profit for 2007	—	—	—	—	—	—	—	—	87,626,132	—	87,626,132
Profit for the year attributable to minority interests	—	—	—	—	—	—	—	—	—	674,493	674,493
Changes in the scope of consolidation	—	—	—	—	—	—	—	—	—	52,864	52,864
Tax assets recognised (Note 3-m)	—	—	—	—	6,950,000	—	—	—	—	—	6,950,000
Other (Note 18)	—	—	1,943,362	—	(607,382)	—	—	—	—	176,185	1,512,165
Balances at 31 December 2007 (*)	**10,318,506**	**11,863,347**	**58,452,208**	**2,063,704**	**127,695,994**	**6,310,204**	**496,558**	**(3,914,098)**	**87,626,132**	**3,573,929**	**304,486,484**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 26 are an integral part of the consolidated statement of changes in equity for 2007.

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries Composing the CAF Group

Consolidated cash flow statements

for the years ended 31 December 2007 and 2006 (Euros)

	2007	2006 (*)
Cash flows from operating activities:		
Profit for the year	88,300,625	34,650,460
Adjustments for:		
Depreciation and amortisation (Notes 7 and 8)	16,616,105	17,479,630
Amount credited to profit or loss due to ineffective portion of hedges (Note 17)	2,066	—
Long-term provisions and other non-current financial liabilities (Notes 3-ñ and 15)	31,527,127	17,239,280
Changes in provisions for non-current financial assets	—	2,805,600
Short-term provisions	51,728,741	61,333,187
Gain on disposal of non-current assets (Notes 3-b, 7 and 8)	(120,152)	(656,443)
Losses on disposal of non-current assets (Notes 3-b, 7 and 8)	79,419	29,474
Cash flows from operating activities	**188,133,931**	**132,881,188**
Income taxes paid	(22,151,210)	(10,774,000)
Adjustments to value of long-term derivative financial instruments (Note 17)	(343,696)	3,768,869
Amounts used of long-term provisions and other non-current financial liabilities (Notes 3-ñ and 15)	(13,275,638)	(1,136,734)
Release of short-term provisions (Note 20)	(19,433,706)	(11,277,322)
Net allocation of deferred taxes to profit or loss	—	5,715
Net cash flows from operating activities	**132,929,681**	**113,467,716**
Change in working capital:		
Trade receivables and other current assets (Notes 3-d and 5)	(119,964,202)	(417,936,129)
Increase in inventories	33,039,767	22,037,022
Trade payables	20,934,720	208,168,161
Net cash flows from operating activities (I)	**66,939,966**	**(74,263,230)**
Cash flows from investing activities:		
Investments in subsidiaries net of existing liquid items (Note 9)	(345,941)	—
Investments in intangible assets (Note 7)	(107,081,651)	(112,156,833)
Investments in non-current financial assets (Note 9)	(4,560,665)	(9,608,180)
Investments in property, plant and equipment (Note 8)	(30,625,807)	(23,812,940)
Proceeds from the disposal of property, plant and equipment and intangible assets (Notes 7 and 8)	120,152	1,554,222
Investments accounted for using the equity method (Note 9)	(1,229,407)	(106,226)
Proceeds from the disposal of non-current financial assets (Note 9)	9,133,517	7,337,778
Net cash flows from investing activities (II)	**(134,589,802)**	**(136,792,179)**
Cash flows from financing activities:		
Valuation adjustments	—	6,678,307
Minority interests and other (Note 14)	229,049	(93,111)
Cash inflows from other non-current financial liabilities (Note 15)	2,698,720	1,741,928
Long-term bank borrowings (Note 16)	90,612,409	96,672,063
Commercial financing	—	107,741,727
Net translation differences	—	11,794,018
Dividends paid by the Parent (Note 14)	(10,969,840)	(5,484,920)
Other (Note 14)	(607,382)	—
Net cash flows from financing activities (III)	**81,962,956**	**219,050,012**
Net increase in cash and cash equivalents (I+II+III)	**14,313,120**	**7,994,603**
Cash and cash equivalents at beginning of year	9,898,296	1,903,693
Cash and cash equivalents at end of year	**24,211,416**	**9,898,296**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 26 are an integral part of the consolidated cash flow statement for 2007.

Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries (CAF Group)

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2007

1. Description and activities of the Parent

Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Parent") was incorporated for an indefinite period of time in San Sebastián (Guipúzcoa).

The Parent's object is described in Article 2 of its bylaws.

The Parent currently engages mainly in the manufacture of railway materials.

The Parent, as part of its business activities, owns majority equity interests in other companies (see Note 2-f).

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements of the CAF Group for 2007 and 2006 were formally prepared by the directors:

- In accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, including International Accounting Standards (IASs) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the CAF Group's consolidated financial statements for 2007 and 2006 are summarised in Note 3.
- Taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative treatments permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly the CAF Group's consolidated equity and financial position at 31 December 2007 and 2006 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the years then ended.
- On the basis of the accounting records kept by the Parent and by the other Group companies. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2007 and 2006 (IFRSs) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards.

The CAF Group's consolidated financial statements for 2006 were approved by the shareholders at the Annual General Meeting of CAF on 2 June 2007. The 2007 consolidated financial statements of the Group and the 2007 financial statements of the Group companies have not yet been approved by their shareholders at the respective Annual General Meetings. However, CAF's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of International Financial Reporting Standards (IFRSs)

The Group's consolidated financial statements for the years ended 31 December 2007 and 2006 were prepared in accordance with International Financial Reporting Standards (IFRSs), in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July 2002, taking into account all the mandatory accounting policies and rules and measurement bases with a material effect, as well as the alternative treatments permitted by the relevant standards in this connection.

In 2007 the Group adopted IFRS 7 "Financial Instruments: Disclosure", which came into force on 1 January 2007 for years beginning on or after that date, together with the amendments to IAS 1 "Presentation of Financial Statements" in relation to capital disclosures.

As a result of the adoption of IFRSs 7 and the amendments to IAS 1, the qualitative and quantitative disclosures in the accompanying consolidated financial statements in relation to financial instruments and management of capital contained in Notes 5, 14 and 17 have been amplified.

Also, four IFRIC interpretations came into force in 2007: IFRIC 7 "Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*", IFRIC 8 "Scope of IFRS 2", IFRIC 9 "Reassessment of Embedded Derivatives" and IFRS 10 "Interim Financial Reporting and Impairment". The adoption of these interpretations did not have any effect on the Group's consolidated financial statements.

Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union.

Standards and Amendments to Standards	**Obligatory application in the years beginning on or after:**
IFRS 8 - "Operating Segments"	1 January 2009
Revision of IAS 23 (*) - "Borrowing Costs"	1 January 2009
Revision of IAS 1 (*) - "Presentation of Financial Statements"	1 January 2009
Revision of IFRS 3 (*) - "Business Combinations"	1 July 2009
Amendment of IAS 27 (*) - "Consolidated and Separate Financial Statements"	1 July 2009
Amendment of IFRS 2 (*) - "Share-based Payment"	1 January 2009
Interpretations	
IFRIC 11 - "IFRS 2 Group and Treasury Share Transactions"	1 March 2007
IFRIC 12 (*) - "Service Concession Arrangements"	1 January 2008
IFRIC 13 (*) - "Customer Loyalty Programmes"	1 July 2008
IFRIC 14 (*) - "IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	1 January 2008

(*) Standards and interpretations not yet adopted by the European Union at the date of preparation of these consolidated financial statements.

IFRS 8 "Operating Segments"

The main new development introduced by this new standard, which replaces IAS 14, is that it requires an entity to adopt a management approach when reporting on the financial performance of its business segments. Generally, financial information is required to be reported on the same basis as is used internally by management for evaluating segment performance and deciding how to allocate resources to segments. The directors have not yet assessed the impact that the application of this standard will have on the consolidated financial statements.

Revision of IAS 23 "Borrowing Costs"

The principal change in this new revised version of IAS 23 is the elimination of the option of immediate recognition as an expense of borrowing costs associated with an asset that takes a substantial period of time to get ready for its intended use or sale. This new standard may be applied prospectively. The directors consider that its entry into force will not affect the consolidated financial statements, since it will not lead to a change in accounting policy, since the Group already capitalises such costs.

Revision of IAS 1 "Presentation of Financial Statements"

The purpose of the new version of this standard is to improve the ability of users to analyse and compare the information provided in financial statements. These improvements will enable users of consolidated financial statements to analyse changes in equity arising from transactions with owners acting in their capacity as owners (e.g. dividends and the repayment of capital) separately from non-owner changes (e.g. transactions with third parties or income and expenses recognised directly in equity). The revised standard provides the option of presenting income and expense items and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement followed by a statement of comprehensive income).

IAS 1 also introduces new reporting requirements when the entity applies an accounting change retrospectively, makes a restatement or reclassifies items in previously issued financial statements, as well as changes in the names of certain financial statements with a view to reflecting their function more clearly (e.g. the balance sheet will be called the statement of financial position).

The impacts of this standard will basically be at presentation and disclosure level. In the case of the Group, since it does not regularly present a statement of recognised income and expenses, the new standard will give rise to the inclusion of this new financial statement in the financial statements.

Revision of IFRS 3 "Business Combinations" and amendments to IAS 27 "Consolidated and Separate Financial Statements"

These standards were issued as a result of the project for the convergence of international principles relating to business combinations with US accounting standards. The revised IFRS 3 and the amendments to IAS 27 give rise to very significant changes in several matters relating to accounting for business combinations which, in general, place greater emphasis on the use of fair value. Since the changes are significant, set forth below are certain of these changes, merely for illustration purposes: acquisition costs, which will be taken to expenses rather than be considered to be an increase in the cost of the business combination as per the current accounting treatment; step acquisitions, in which the acquirer revalues the investment at fair value on the date control is obtained; or the option to measure at fair value the minority interests of the acquiree rather than measure them as the proportional part of the fair value of the net assets acquired as per the current accounting treatment. Since the standard will be applied prospectively, in general the directors do not expect any significant modifications to arise in connection with the business combinations performed. However, the directors have not yet assessed the possible impact that the application of this standard may have on future business combinations and their respective effects on the consolidated financial statements.

Revision of IFRS 2 "Share-Based Payment"

The objective of the amendment to IFRS 2 is basically to clarify in the standard the concepts of vesting conditions and cancellations in share-based payments. The directors consider that the entry into force of the amendment will not have a significant effect on the consolidated financial statements.

IFRIC 11 "IFRS 2 Group and Treasury Share Transactions"

This interpretation addresses how to apply IFRS 2 "Share-Based Payment" to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of the Parent). This interpretation requires treasury or group share-based payment transactions to be accounted for as equity-settled, regardless of how the equity instruments needed are obtained. The directors consider that the entry into force of the interpretation will not have a significant effect on the consolidated financial statements.

IFRIC 12 "Service Concession Arrangements"

Service concession arrangements are arrangements whereby a government or other public sector entity grants arrangements for the provision of public services, such as roads, airports, water and power supplies to private sector operators. The government retains control over the assets but the private operator is responsible for the construction, management and maintenance of the public infrastructure. IFRIC 12 establishes how the concession operators must apply the existing IFRSs when accounting for the rights and obligations assumed under arrangements of this type. The Group has applied this IFRIC early since 2006 (see Notes 3-a and 7).

IFRIC 13 "Customer Loyalty Programmes"

This interpretation addresses accounting by an entity that grants loyalty bonuses in the form of award credits (through "points", "kilometres", etc.) to customers that buy goods or services. Specifically, it explains how such an entity should account for its obligations to provide free of discounted goods or services (through "points", kilometres", etc.) to customers who redeem those points.

The interpretation requires entities to allocate a portion of the revenue from the initial sale to award credits, recognising them as revenue only when they fulfil their obligations, supplying those awards or paying third parties to do so. The directors consider that the entry into force of this interpretation will not have a significant effect on the consolidated financial statements.

IFRIC 14 - "IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC 14 provides general guidelines on how to check the limit provided for in IAS 19 "Employee Benefits" on the amount of the excess that can be recognised as an asset. It also explains how the pension plan assets or liabilities might be affected when there is a statutory or contractual minimum funding requirement, establishing the need to recognise an additional liability if the entity has a contractual obligation to make additional contributions to the plan and its capacity to recover them is restricted. The interpretation will standardise practices and ensure that entities recognise an asset in relation to an excess on a consistent basis. The directors consider that the entry into force of this interpretation will not have a significant effect on the consolidated financial statements.

c) Functional currency

These consolidated financial statements are presented in euros, since it is the currency of the main economic area in which the Group operates. Foreign operations are accounted for in accordance with the policies established in Note 2-f.

The detail of the equivalent euro value of the monetary assets and liabilities in currencies other than the euro held by the CAF Group at 31 December 2007 and 2006 is as follows:

	Equivalent Value in Thousands of Euros			
	2007		2006	
Currency	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Mexican peso	330,335	257,803	179,718	154,136
Argentine peso	1,635	492	1,654	475
Brazilian real	3,852	767	4,319	1,892
US dollar	9,608	3,184	7,740	4,511
Pound sterling	992	1,144	1,385	1,393
Total	**346,422**	**263,390**	**97,690**	**162,407**

The breakdown of the main foreign currency balances, based on the nature of the items making them up, is as follows:

	Equivalent Value in Thousands of Euros			
	2007		2006	
Nature of the Balances	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Other intangible assets	194,884	—	97,126	—
Accounts receivable	30,489	—	35,380	—
Current Financial Assets	113,140	—	57,625	—
Cash and cash equivalents	7,909	—	4,685	—
Non-current liabilities	—	161,148	—	96,716
Current liabilities	—	102,242	—	65,691
Total	**346,422**	**263,390**	**194,816**	**162,407**

d) Use of estimates

In the consolidated financial statements of the CAF Group for 2007 and 2006 estimates were occasionally made.

Although these estimates were made on the basis of the best information available at 31 December 2007 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statements.

There have not been any changes in accounting estimates with respect to 2006 that might have had a significant impact on these consolidated financial statements.

e) Comparative information

As required by IAS 1, the information relating to 2007 contained in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2006.

The 2007 consolidated financial statements, which are included for comparison purposes, were also prepared in accordance with IFRSs as adopted by the European Union on a basis consistent with that applied in 2006.

f) Consolidable Group and consolidation principles

Scope of consolidation

The accompanying consolidated financial statements include the Parent and the companies over which it exercises control; control is defined as the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The accompanying consolidated financial statements for the year ended 31 December 2007 were prepared from the individual accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. (Parent - see Note 1) and of the subsidiaries listed below:

	% of Control or Influence	Location	Line of Business	Auditor
Fully consolidated companies (*)				
Industrial Subgroup				
CAF, S.A.	Parent	Guipúzcoa (Spain)	Marketing and manufacture of railway equipment and components	Deloitte
Trenes de Navarra, S.A.	90%	Navarra (Spain)	Manufacture and assembly of railway equipment and components	Deloitte
Construcciones Ferroviarias de Madrid, S.L. (Sole-Shareholder Company)	100%	Madrid (Spain)	Manufacture and assembly of railway equipment and components	Horwath Auditores España
Construcciones Ferroviarias CAF-Santana, S.A.	67%	Jaén (Spain)	Manufacture and assembly of railway equipment and components	Deloitte
CAF USA, Inc.	100%	Delaware (USA)	Manufacture and assembly of railway equipment and components	Deloitte
CAF México, S.A. de C.V.	100%	Mexico City (Mexico)	Marketing and manufacture of railway equipment and components	Deloitte
CAF Brasil Industria e Comercio, S.A.	100%	Sao Paulo (Brazil)	Repair and maintenance of railway equipment and components	Kpmg
CAF Argentina, S.A.	99.9%	Buenos Aires (Argentina)	Repair and maintenance of railway equipment and components	Ernst & Young
CAF Irlanda, Ltda.	100%	Belfast (Northern Ireland)	Repair and maintenance of railway equipment and components	Deloitte
CAF Italia, S.R.L.	100%	Rome (Italy)	Repair and maintenance of railway equipment	Deloitte
CAF Chile, S.A.	100%	Santiago de Chile (Chile)	Repair and maintenance of railway equipment	No mandatory

	% of Control or Influence	Location	Line of Business	Auditor
Technology Subgroup				
CAF I+D, S.L. (Sole-Shareholder Company)	100%	Guipúzcoa (Spain)	R&D in connection with railway materials	No mandatory
Traintic, S.L.	99.9%	Guipúzcoa (Spain)	Manufacture of electronic products	BSK-Bask Consulting, S.L.
Trainelec, S.A.U.	100%	Guipúzcoa (Spain)	Electronic power equipment	Deloitte
Nuevas Estrategias de Mantenimiento, S.L.	85%	Guipúzcoa (Spain)	Technology solutions	BSK- Bask Consulting, S.L.
Desarrollo de Software Miramon 4, S.L.	60%	Guipúzcoa (Spain)	Software development	BSK-Bask Consulting, S.L.
Bizkaia Ferroviaria, S.L.	100%	Vizcaya (Spain)	Engineering services	Not mandatory
Centro de Ensayos y Análisis Cetest, S.L.	100%	Guipúzcoa (Spain)	Trials and accreditation	Not mandatory
Lets Ingenieros, S.L.	52.11%	Madrid (Spain)	Technical projects, electronic engineering and manufacture of electronic equipment	No mandatory
Services Subgroup				
Actren, S.A.	51%	Madrid (Spain)	Maintenance of railway equipment	Deloitte
Sermanfer, S.A. (Sole-Shareholder Company)	100%	Madrid (Spain)	Railway material maintenance services	AUDYGE
Tradinsa Industrial, S.A.	80%	Lleida (Spain)	Railway material repair and maintenance	Roig & Roig Asesores
Sefemex, S.A. de C.V.	100%	Mexico City (Mexico)	Provision of services and administration of personnel	Horacio Ramírez y Asociados
Inversiones en Concesiones Ferroviarias, S.A.	77.6%	Guipúzcoa (Spain)	Promotion of companies through ownership interests	Arco Auditores
Urbanización Parque Romareda, S.A.U.	100%	Zaragoza (Spain)	Ownership of shares	Not mandatory
Ferrocarriles Suburbanos, S.A. de C.V.	93.2%	Mexico City (Mexico)	Passenger land transport services	Deloitte
Ibaia Energia, S.L.	85%	Guipúzcoa (Spain)	Power generation	BSK-Bask Consulting, S.L.
Sempere Componentes, S.L.	100%	Guipúzcoa (Spain)	Marketing of components	BSK-Bask Consulting, S.L.
Construction Subgroup				
Constructora de Sistemas Ferroviarios, S.L.	93.2%	Guipúzcoa (Spain)	Railway line operating equipment	Deloitte
Constructora Mex. del Fer. Sub., S.A. de C.V.	93.2%	Mexico City (Mexico)	Railway line operating equipment	Deloitte

	% of Control or Influence	Location	Line of Business	Auditor
Companies accounted for using the equity method (Note 9)				
Industrial Subgroup				
Compañía de Vagones del Sur, S.A.	35%	Jaén (Spain)	Manufacture of freight wagons	No mandatory
Services Subgroup				
Sab Ibérica, S.A.	24.5%	Madrid (Spain)	Sale of railway braking equipment	Deloitte
Technology Subgroup				
Lander Simul. and Training Solutions, S.A.	40%	Guipúzcoa (Spain)	Study and manufacture of simulators	S.M. Auditores
Asirys Vision Technologies, S.A.	26%	Guipúzcoa (Spain)	Study and manufacture of automated production systems	S.M. Auditores

(*) The Parent guarantees financial support for its subsidiaries for a minimum period of one year.

Changes in the scope of consolidation

In 2007 10% of the shares of Trenes de Navarra, S.A.U., a company incorporated in 2006, were sold for EUR 200 thousand. Also, a 52.11% ownership interest was acquired in Lets Ingenieros, S.L.

The main changes in the scope of consolidation in 2007 related to the incorporation of the following companies: Centro de Ensayos y Análisis Cetest, S.L., Bizkaia Ferroviaria, S.L., Actren, S.L., Desarrollo Software Miramon 4, S.L., Sempere Componentes, S.L., Trainelec, S.L., Nuevas Estrategias de Mantenimiento, S.L., Ibaia Energia, S.L., CAF Chile, S.A. and Compañía de Vagones del Sur, S.A. for EUR 3,455 thousand.

In 2006 Trenes de Navarra, S.A.U. was included in the scope of consolidation following its incorporation on 6 March 2006 with an initial share capital of EUR 300 thousand, which was fully subscribed and paid by CAF, S.A. Subsequently, share capital was increased by EUR 1,700 thousand, after which it was represented by 2,000 registered shares of EUR 1,000 par value each, which had been fully paid at 2006 year-end.

Basis of consolidation

“Subsidiaries” are defined as companies over which the Parent has the capacity to exercise control; control exists when the Parent has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. This control is presumed to exist when the Parent owns directly or indirectly more than half of the voting power of the investee or, even if this percentage is lower, when there are agreements with other shareholders of the investee that give the Parent control. The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

Also, “associates” are companies over which the Parent is in a position to exercise significant influence, but not control or joint control, usually because it holds -directly or indirectly- more than 20% of the voting power of the investee. In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations, less any impairment of the individual investments (in the case of transactions with an associate, the related profits or losses are eliminated in proportion to the Group's ownership interest).

Translation of foreign currency financial statements

The financial statements in foreign currencies were translated to euros using the year-end exchange rate method, which consists of translating all the assets, rights and obligations to euros at the closing exchange rates and the income statement items at the average exchange rates for the year.

The difference between the amount of the foreign companies' equity translated at historical exchange rates (except for the profit or loss for the year, which is translated as stated above) and the net equity value arising from the translation of the assets, rights and obligations at the closing exchange rates from 1 January 2004 is presented in equity under "Translation Differences" in the consolidated balance sheet, net of the portion of the difference that relates to minority interests, which is recognised under "Equity - Minority Interests".

3. Accounting principles and policies and measurement bases used

The principal accounting policies used by the CAF Group in preparing its consolidated financial statements at 31 December 2007 and 2006 were as follows:

a) Other intangible assets

Computer software and development projects for which there are no doubts as to their technical and commercial success are measured at their acquisition cost (or, where appropriate, at their accumulated production cost applied in accordance with inventory measurement bases - see Note 3-e). Computer software is amortised on a straight-line basis over five years from its acquisition (see Note 7). Development projects are amortised on a straight-line basis over five years from their acquisition or completion, or are recovered as an addition to the cost of the development-related contracts obtained over that period, in which case they are transferred to inventories (see Note 7).

The amounts recognised by the CAF Group as administrative concessions relate, pursuant to IFRIC 12, to the cost incurred in the acquisition or production of the assets required for the operation thereof, and the borrowing costs incurred during the construction period of the infrastructure are capitalised. The administrative concessions are recognised as intangible assets since the related investments will be recovered through the cash flows from passengers and other activities involved in the operation of the concessions and there is no unconditional contractual right to receive cash from the grantor. Therefore, the margin on the internally generated assets will be recognised as the concessions are operated. These amounts will be amortised on a straight-line basis over the concession term (30 years) from the date of commencement of the related services (scheduled for the first half of 2008) (see Note 7).

b) Property, plant and equipment

Items of property, plant and equipment are carried at cost revalued, where appropriate, pursuant to the applicable legislation, including Guipúzcoa Regulation 11/1996, of 5 December, and Guipúzcoa Decree 13/1991, of 13 December, and the surplus resulting therefrom was treated as part of the cost of these assets, in accordance with IFRSs and pursuant to the alternative accounting treatment provided by IFRS 1, whereby the fair value at the date of transition is used as the deemed cost for certain specific assets.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

In-house work performed by the consolidated companies on items of property, plant and equipment is recognised at the related accumulated production cost allocated in accordance with inventory measurement bases (see Note 3-e).

The gains (losses) on the disposal of property, plant and equipment items amounted to approximately EUR 21 thousand and EUR 627 thousand in 2007 and 2006, respectively, and were recognised under "Other Gains or Losses" in the accompanying consolidated income statements.

The items of property, plant and equipment are depreciated on a straight-line basis at annual rates based on the following years of estimated useful life:

	Years of Estimated Useful Life
Buildings	25 - 50
Plant and machinery	6 - 10
Other fixtures, tools and furniture	3 - 10
Other items of property, plant and equipment	10

c) Impairment of assets

At each balance-sheet date, the CAF Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is deemed to be the present value of estimated future cash flows.

If the recoverable amount of an asset is less than its carrying amount, the related impairment loss is recognised for the difference with a charge to "Impairment Losses" in the accompanying consolidated income statement and a credit to "Property, Plant and Equipment - Accumulated Depreciation" in the accompanying consolidated balance sheet.

Impairment losses recognised on an asset in prior years are reversed when there is a change in the estimate of its recoverable amount, and the value of the asset is increased up to the carrying amount that it would have had had no impairment loss been recognised.

The CAF Group did not recognise any impairment losses in this connection in 2007 or 2006.

d) Financial instruments

Trade and other receivables

Trade and other receivables are initially recognised at market value in the consolidated balance sheet and are subsequently measured at amortised cost using the effective interest rate.

The required adjustments are recognised for the difference between the recoverable amount of accounts receivable and their carrying amount determined as indicated in the preceding paragraph. At 31 December 2007 and 2006, there were no material long-term accounts receivable not earning explicit interest.

The Group records allowances for debts in an irregular situation due to late payment, suspension of payments, insolvency or other reasons, after performing a case-by-case collectibility analysis. In 2007 and 2006 the net changes in the allowance for impairment of accounts receivable were a net release of approximately EUR 881 thousand and a net provision of approximately EUR 174 thousand, respectively (see Note 12).

Also, the Group derecognises trade receivable balances for the amount of the accounts receivable factored provided that it has transferred substantially all the risks and rewards inherent to ownership of these accounts receivable (non-recourse factoring) (see Note 5). No balances had been factored at 31 December 2007 or 31 December 2006.

On the basis of a case-by-case analysis, the Group recognises accounts receivable relating to various contracts net of the related inventory items in cases when the amounts settled exceed the cost incurred. At 31 December 2007 this amount totalled EUR 159,789 thousand (31 December 2006: EUR 159,013 thousand) (see Notes 11 and 12).

Financial assets

In accordance with the classification criteria established by IAS 39, the Group classifies its financial assets in the following categories:

(1) Loans and other long-term receivables. These receivables are measured at their amortised cost, using the effective interest rate. The amortised cost is understood to be the initial cost minus principal repayments and any reduction for impairment or uncollectibility. The effective interest rate is the discount rate that exactly matches the initial value of a financial instrument to all its cash flows.

(2) Held-to-maturity investments. Financial assets with fixed maturity that the Group has the intention and ability to hold to maturity. These investments are also measured at amortised cost.

(3) Held-for-trading financial assets, classified as at fair value through profit or loss. These assets must have any of the following characteristics:

- They have been classified as held-for-trading because they have been acquired to generate a profit through short-term fluctuations in their prices.
- They are financial derivatives provided that they have not been designated as part of a hedging relationship.
- They have been included in this category of assets since initial recognition.

At 31 December 2007, the Group did not have any assets in this category.

(4) Available-for-sale financial assets, which are measured at fair value. This category includes financial assets acquired that are not held for trading purposes and are not classified as held-to-maturity investments or as financial assets at fair value through profit or loss. Substantially all these assets relate to equity investments. These investments are also included in the consolidated balance sheet at their market value which, in the case of unlisted companies, is obtained using alternative methods, such as comparisons with similar transactions or, if sufficient information is available, discounting the expected cash flows. Changes in market value are charged or credited to "Unrealised Asset and Liability Revaluation Reserve" in the consolidated balance sheet until the investments are sold, at which time the accumulated balance of this heading relating to those investments is allocated in full to the consolidated income statement.

Equity investments in unlisted companies in which the market value cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph are measured at cost.

CAF Group management determines the most appropriate classification for each asset at the time of acquisition and reviews it at year-end.

Cash and cash equivalents

"Cash and Cash Equivalents" in the accompanying consolidated balance sheet includes cash, demand deposits and other short-term, highly liquid investments that are readily converted into cash and that are subject to an insignificant risk of changes in value.

Trade and other payables

Accounts payable are initially recognised at market value and are subsequently measured at amortised cost using the effective interest rate.

Bank borrowings and other financial liabilities

Bank borrowings and other financial liabilities are initially recognised at the proceeds received, net of transaction costs, i.e. equivalent to the subsequent application of the amortised cost method, for which the effective interest rate is used. Finance costs are recognised in the consolidated income statement on an accrual basis using the effective interest method and they are aggregated to the carrying amount of the financial instrument to the extent that they are not settled in the period in which they arise (see Note 16).

Derivative financial instruments

The Group uses derivative financial instruments to hedge the foreign currency risk to which its project contracts and certain investments in investees are exposed. Accordingly, the CAF Group has arranged forward currency contracts denominated mainly in US dollars, yen, pounds sterling and Swiss francs (see Note 17).

The Group reviews the conditions that a financial derivative must meet to qualify for hedge accounting to ensure that such conditions are met, i.e.: (1) it hedges one of the following three types of risk: fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation; (2) it is effective in offsetting any risk inherent to the hedged item or position throughout the expected term of the hedge; and (3) there is sufficient documentation evidencing that the financial derivative was specifically arranged to hedge certain balances or transactions and the manner in which the effectiveness of the hedge was expected to be achieved and measured, provided that this is consistent with the Group's risk management policy.

The CAF Group has defined financial risk management objectives and policies that set forth, in writing, the Group's policy in respect of the arrangement of derivatives as a hedging strategy.

These financial instruments are recognised initially at acquisition cost and subsequent changes in the fair value of derivative financial instruments that are designated and effective as hedges are recognised as follows:

– In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in "Financial Profit (Loss)" in the accompanying consolidated income statement. The Group records as fair value hedges the hedges arranged for construction work commenced in or after 2006, since the necessary conditions are met for this type of hedge.

– In cash flow hedges, the gains or losses attributable to the effective portion of the hedging instruments are recognised temporarily in equity under "Valuation Adjustments". This method is used by the Group to hedge work commenced in 2005 and in prior years and for work in which the hedged risk is not a firm and signed commitment but rather a highly probable forecast transaction.

– In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under "Translation Differences". This hedge was used for the equity of CAF USA, Inc.

As firm commitments give rise to the recognition of assets and/or liabilities in the consolidated balance sheet, the amounts previously recognised in equity are reclassified to the consolidated income statement.

e) Inventory measurement bases

Raw materials and other supplies and merchandise are measured at the lower of average cost and market.

Work in progress and finished and semi-finished goods are presented net of costs already settled as described in Note 3-f and are measured as follows:

1. Materials and expenses allocated to each project: at the average acquisition or production cost.

2. Processing costs: based on standard hourly absorption rates for labour and direct and indirect production overheads, which do not differ significantly from actual hourly rates.

3. Interest costs: calculated on the basis of the financing requirements directly allocable to each project contract.

f) Recognition of contract revenue and profit

For construction contracts, the Group generally recognises the revenue and profit on each contract by reference to the estimated stage of completion of the contract, calculated on the basis of the percentage of actual hours incurred in each contract to estimated total hours. Potential losses on project contracts are recognised in full when they become known or can be estimated.

Once the projected profit or loss on each contract has been determined, the Group applies the following correcting coefficients to determine actual profit or loss and revenue.

– With a percentage of completion of between 0% and 10%, no profit or revenue is recognised.

– From 10% onwards, a percentage of profit and revenue equal to the percentage of completion is recognised.

Based on the revenue realised, the projected profit or loss on each contract (calculated as described above) and the stage of completion, inventories are derecognised for the amount of the settled costs with a charge to the related consolidated income statement and a credit to "Goods and Work in Progress Whose Settled Costs Do Not Exceed Costs Incurred", which is recognised as a deduction from "Inventories" on the asset side of the consolidated balance sheet (see Note 11).

Sales of products, basically parts, are recognised when the goods and title thereto are transferred.

g) Customer advances and completed contract work

The difference between revenue recognised on each project (see Note 3-f) and the amount billed for the project is recognised as follows:

– If the difference is positive, under "Trade and Other Receivables - Unbilled Completed Contract Work" (see Note 12).

– If the difference is negative, under "Trade and Other Payables - Advances Received on Orders".

h) Foreign currency transactions and other commitments

The foreign currency asset and liability balances of consolidated foreign companies were translated to euros as explained in Note 2-f. The remaining non-monetary foreign currency asset and liability balances were translated at the exchange rate prevailing at each year-end, and the positive and negative exchange differences between the exchange rate used and the year-end exchange rate were recognised in income. Foreign currency transactions for which the CAF Group decided to arrange financial derivatives in order to mitigate the foreign currency risk are recognised as described in Note 3-d.

i) Current/Non-current classification

In the accompanying consolidated balance sheet debts due to be settled within 12 months are classified as current items and those due to be settled within more than 12 months as non-current items.

j) Government grants

The Group companies recognise government grants received as follows:

1. Non-refundable grants related to assets are recognised at the amount granted, as a reduction of the value of the subsidised asset when they are definitively granted and are credited to income in proportion to the period depreciation on the subsidised assets.

2. Grants related to income are credited to income when they are definitively granted by reducing the subsidised costs.

k) Post-employment benefits

The consolidated companies' legal and contractual obligations to certain of their employees in relation to retirement and death are met through premiums in the form of defined contributions to funds or in the process of being externalised at independent insurance companies (see Note 15). The contributions made in 2007 and 2006 for various groups of employees amounted to EUR 2,020 thousand and EUR 2,015 thousand, respectively, and were charged to "Staff Costs" in the accompanying consolidated income statements. The Group did not have any amount payable in this connection at 31 December 2007. Also, in accordance with the applicable collective labour agreement, the Parent contributes an additional 1.75% of the base salary of all its employees.

Also, the Parent's Directors, based on the conclusions to a study conducted by their legal advisers, considered in 2006 that a historical right of certain of its current employees had vested. Therefore, in 2006 the Group recognised a defined benefit liability under "Non-Current Liabilities - Other Non-Current Financial Liabilities" (EUR 12,979 thousand) and "Current Liabilities - Other Payables - Other Current Liabilities" (EUR 41 thousand) with a charge to "Staff Costs" in the 2006 consolidated income statement. In 2007 the Parent externalised this plan and paid a premium of EUR 12,048 thousand with a charge to the provisions recognised in prior years. This premium includes the amounts accrued in relation to past services actually rendered. Also, in accordance with the accrual basis of accounting, a provision of EUR 1,208 thousand was recognised with a charge to "Staff Costs" in the consolidated income statement for 2007 (see Note 22) and a credit to "Non-Current Liabilities - Other Non-Current Financial Liabilities" in the consolidated balance sheet at 31 December 2007 in relation to the amount accrued in 2007, which will foreseeably be settled in 2008. The future changes in the obligations and the accrual for past service costs will be charged or credited to the related future consolidated income statements.

In the assumptions applied in the actuarial study performed by an independent third party, the future commitments were discounted at a market rate, taking into account salary increases similar to those made in the past.

l) Early retirements and termination benefits

"Non-Current Liabilities - Other Non-Current Financial Liabilities" and "Current Liabilities - Other Payables - Other Current Liabilities" in the accompanying consolidated balance sheet at 31 December 2007 include approximately EUR 9,563 thousand and EUR 2,140 thousand, respectively (2006: EUR 6,889 thousand and EUR 1,911 thousand, respectively) relating to the present value estimated by the Directors of the future payments to be made to the employees who had hand-over contracts in December 2007 and to those who will have hand-over contracts during the term of the collective labour agreement (2008). This provision was recognised in 2006, and was adjusted with a credit of EUR 4,957 thousand to "Staff Costs" in the accompanying consolidated income statement for 2007 (see Notes 18 and 22).

m) Income tax

The expense for Spanish corporation tax and other similar taxes applicable to the foreign consolidated entities are recognised in the consolidated income statement, except when it results from a transaction whose result is recognised directly in equity, in which case, the related tax is also recognised in equity.

The current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit for the year, after deducting the tax credits allowable for tax purposes, plus the change in the deferred tax assets and liabilities and other tax assets, arising from both tax losses and tax credits.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. Also, deferred tax assets are recognised for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilised, which at the consolidated CAF Group are deemed to be those guaranteed by its backlog. The other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

Pursuant to IFRSs, deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

Pursuant to current legislation, tax assets relating to unused tax credits and tax relief are recognised for accounting purposes provided that the conditions established under the tax legislation are expected to be met. At 31 December 2007, the Group had recognised EUR 12,254 thousand in this connection under "Non-Current Financial Assets" (see Note 9) and "Current Assets - Current Tax Assets" after the deduction of EUR 25,100 thousand in the income tax estimate for 2007 (see Note 18) (at 31 December 2006, EUR 8,500 thousand had been recognised in this connection after having deducted EUR 6,000 thousand in the income tax estimate for 2006, after having recorded EUR 8,500 thousand with a credit to "Income Tax" in the consolidated income statement) and after having recorded EUR 5,304 thousand and EUR 6,950 thousand with a credit to profit or loss and to "Voluntary Reserves" (see Notes 14, 19 and 21). In view of the uncertainty inherent to the recoverability of assets of this nature, the Group's recognition policy is based on an assessment of its backlog.

EUR 7,776 thousand of these tax assets were recognised under "Non-Current Financial Assets - Loans and Receivables" (see Note 9) and the remaining amount under "Current Assets - Current Tax Assets" in the accompanying consolidated balance sheet at 31 December 2007 (see Note 19).

n) Leases

The CAF Group classifies as finance leases lease arrangements whereby the lessor transfers all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

At 31 December 2007, the CAF Group did not have any finance leases.

Expenses arising on operating leases are allocated to “Other Operating Expenses” in the consolidated income statement over the term of the lease on an accrual basis.

ñ) Long-term provisions

The Group makes provisions for present obligations arising from past events that it expects to settle on maturity through an outflow of resources. The amount is based on the best estimate made by the Parent's Directors at the reporting date and the obligations are recognised at the present value whenever the financial effect is material. In 2007 and 2006 the Group made payments of EUR 691 thousand and EUR 713 thousand, respectively, and recognised provisions of EUR 262 thousand and EUR 652 thousand, respectively, mainly with a charge to “Staff Costs - Wages and Salaries” (see Note 22).

o) Short-term provisions

“Short-Term Provisions” in the accompanying consolidated balance sheet includes the provisions recognised by the Group to cover mainly warranty and contractual support service costs and other activity-related expenses (see Note 20). “Other Operating Expenses” in the accompanying consolidated income statement for 2007 includes EUR 37,188 thousand (2006: EUR 49,851 thousand) relating to the difference between the provisions required in this connection at 2007 year-end and the provisions recognised at 2006 year-end. The expenses incurred in 2007 and 2006 in connection with the provision of contract warranty services (approximately EUR 17,139 thousand and EUR 10,870 thousand, respectively) were recognised under “Procurements” and “Staff Costs” in the accompanying consolidated income statements for 2007 and 2006.

p) Environmental matters

The Group recognises environmental investments at acquisition or production cost, net of the related accumulated depreciation, and classifies them by nature in the appropriate “Property, Plant and Equipment” accounts (see Notes 8 and 21-c).

Expenses incurred in order to comply with the applicable environmental legislation are classified by nature under “Other Operating Expenses” in the accompanying consolidated income statements (see Note 21-c).

Also, Royal Decree 1866/2004 regulating the Spanish National CO_2 Emission Rights Plan for 2005-2007 was approved in 2004. In accordance with this legislation, CAF must have rights for CO_2 emissions made on or after 1 January 2005. Royal Decree 60/2005 approved the grant at zero cost of individual emission rights for each facility for 2005-2007. CAF was allocated emission rights for the emission of 67,464 tonnes of CO_2 in that period. If the emissions made exceed the volume of rights allocated, emission rights will have to be acquired in the market.

From 2005 onwards European companies that emit CO_2 in the course of their business activity must deliver in the first few months of the following year CO_2 emission rights equal to the emissions made during the year.

In 2007 the Group made emissions that exceeded the rights allocated by approximately 3,000 tons, and acquired rights in the market to cover that excess amounting to EUR 3 thousand. No amount was recognised in this connection at year-end because the amounts involved were scantly material.

q) Cash flow statement

The following terms are used in the consolidated cash flow statements, which were prepared using the indirect method, with the meanings specified:

– Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

– Operating activities: the principal revenue-producing activities of the consolidated Group companies and other activities that are not investing or financing activities.

– Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

– Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities.

r) Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to the Parent by the weighted average number of ordinary shares outstanding during the year.

In the consolidated financial statements of the CAF Group for the years ended 31 December 2007 and 2006, the basic earnings per share and the diluted earnings per share coincided since there were no dilutive potential shares outstanding in those years.

s) Discontinued operations

A discontinued operation is a sufficiently significant line of business that it has been decided to abandon and/or sell whose assets, liabilities and net profit or loss can be distinguished physically, operationally and for financial reporting purposes. Income and expenses of discontinued operations are presented separately in the consolidated income statement.

No line of business line or business segment was discontinued in 2007 or 2006.

4. Distribution of the profit of the Parent

The distribution of the Parent's profit for 2007 proposed by its Directors is as follows:

Distribution	Thousands of Euros
To Voluntary Reserves	73,942
Dividends	29,139
Total	**103,081**

5. Financial risk management policy

The CAF Group engages in activities that are exposed to various financial risks: market risk (including foreign currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The CAF Group risk management policy focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's financial performance.

The Group's Financial Department identifies, assesses and hedges financial risks by establishing written policies to manage overall risk and specific risk areas such as foreign currency, interest rate and liquidity risks, the use of derivative and non-derivative instruments and the investment of cash surpluses.

a) Market risk

The various CAF Group companies operate internationally and, therefore, are exposed to foreign currency risk in their foreign currency transactions (particularly the US dollar and the Mexican peso). This risk arises on future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group companies use forward contracts to hedge the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. This risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the functional currency of the Group (euro).

The Group's standard practice is to fully hedge the market risk associated with contracts denominated in currencies other than its functional currency. The hedges are intended to avoid the impact of currency fluctuations in the various agreements entered into, so that the Group's results present fairly its industrial and service activity.

For the most significant raw materials, the Group places orders and agrees on the price when a new project is commissioned. The risk of a rise in raw material prices having an adverse effect on the contractual margins is thus hedged.

b) Credit risk

The Group's accounts receivable and work in progress relate mainly to customers abroad. Contracts generally include progress billings.

The Group's standard practice is to hedge against the risk of termination or default associated with contracts entered into with customers in non-OECD countries by taking out export credit insurance policies, pursuant to the rules in the OECD Consensus concerning instruments of this nature.

In addition, the Group has obtained firm commitments from certain banks to purchase its accounts receivable, without recourse. Under these agreements, the Group pays a fee to the bank for assuming its credit risk, plus interest and a spread on the financing received.

c) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash, marketable securities and available funds to cover all the Group's commitments on a timely basis.

The CAF Group manages liquidity risk by:

• Seeking the highest possible level of self-financing with respect to each of the contracts.

• Maintaining undrawn credit balances.

d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises on borrowings. The CAF Group's general policy is to resort in exceptional circumstances to third-party borrowings only in the form of short-term at floated rates tied to market indexes, normally Euribor, which substantially mitigates the interest rate risk. In this regard, the financial liabilities at 31 December 2007 related substantially in full to the concession obtained in Mexico (see Notes 7 and 16) and took the form of structured project financing at a fixed rate without recourse to the other Group companies.

6. Segmentation

6.1. Basis of segmentation

Segment reporting on the CAF Group in the accompanying consolidated financial statements is structured as follows:

– On a primary basis by business unit, distinguishing between the "railway" and the "parts and components" operating activities.

– On a secondary basis by geographical location of the Group's operations.

6.2. Basis and methodology for segment reporting

Segment revenue and expenses relate to those directly attributable to the segment and, accordingly, do not include interest, dividends or gains or losses arising from the disposal of investments or on debt redemption or repayment transactions. The segment profit is presented before any adjustment for minority interests. Segment assets and liabilities are those directly related to the segment's operating activities.

Primary segments

In accordance with the basis for primary segment reporting set forth in IFRSs, the CAF Group considered the two business units operated by it as its primary segments, since it considers that its organisational and management structure and its system of internal reporting to its managing and executive bodies are such that the risks and returns are affected predominantly by the fact that its operations are performed in one or the other business area, taken to be all of the related products and services. Therefore, primary segment reporting includes identifiable components of the CAF Group that are characterised by their exposure to risk and returns that differ from those relating to other operating components that carry on their business activity in different environments.

Accordingly, and in keeping with past experience, the Group defined the primary segments indicated below, which it considers meet internal uniformity requirements as regards similarity of economic or political conditions, or risks arising from applicable regulations, exchange rates or proximity of activities and which are separated from other segments for the same reasons:

• Railway

• Parts and components

Segment information about the businesses is as follows:

Primary Segments (Business Segments)	2007 (Thousands of Euros) Railway	Parts and Components	General	Total
REVENUE:				
External sales	824,622	49,852	—	874,474
Inter-segment sales	—	24,579	—	24,579
Inter-segment eliminations	(24,579)	—	—	(24,579)
Total sales	**800,043**	**74,431**	**—**	**874,474**
RESULT:				
Segment result	84,190	2,907	(1,042)	86,055
Share in net gains of associates	—	—	387	387
Financial profit	—	—	11,521	11,521
Gains or losses on disposal of non-current assets	—	—	28	28
Profit before tax	**84,190**	**2,907**	**10,894**	**97,991**
Income tax	—	—	(9,690)	(9,690)
Net profit for the year	**84,190**	**2,907**	**1,204**	**88,301**
Profit/loss attributable to minority interests	—	—	(675)	(675)
Profit/loss attributable to the Parent	**84,190**	**2,907**	**529**	**87,626**
ASSETS:				
Other intangible assets	197,325	231	—	197,556
Property, plant and equipment	136,703	27,390	7,830	171,923
Inventories	(11,877)	30,807	—	18,930
Trade and other receivables	318,679	12,243	3,450	334,372
Other non-current assets	—	—	72,344	72,344
Other current assets	—	—	502,121	502,121
Total Assets	**640,830**	**70,671**	**585,745**	**1,297,246**
LIABILITIES:				
Profit	84,190	2,907	529	87,626
Trade payables	467,090	15,641	9,782	492,513
Operating provisions	113,991	1,004	—	114,995
Other non-current financial liabilities	89,289	2,999	122	92,410
Other current financial liabilities	19,290	—	—	19,290
Equity (excluding profit for the year)	—	—	216,860	216,860
Other non-current liabilities	161,232	—	21,465	182,697
Other current liabilities	26,109	—	64,746	90,855
Total Liabilities	**961,191**	**22,551**	**313,504**	**1,297,246**

The assets and liabilities recognised in relation to administrative concessions are allocated to the Railway segment. At 31 December 2007, the assets and liabilities recognised in this connection amounted to approximately EUR 285 million (see Notes 7, 13 and 16) and EUR 199 million (see Note 16), respectively (31 December 2006: EUR 139 million and EUR 97 million, respectively).

Primary Segments (Business Segments)	2006 (Thousands of Euros) Railway	Parts and Components	General	Total
REVENUE:				
External sales	763,269	42,458	—	805,727
Inter-segment sales	—	16,372	—	16,372
Inter-segment eliminations	(16,372)	—	—	(16,372)
Total sales	**746,897**	**58,830**	**–**	**805,727**
RESULT:				
Segment result	44,526	2,156	(3,820)	42,862
Share in net gains of associates	—	—	298	298
Financial loss	—	—	(1,273)	(1,273)
Gains or losses on disposal of non-current assets	—	—	633	633
Profit before tax	**44,526**	**2,156**	**(4,162)**	**42,520**
Income tax	—	—	(7,869)	(7,869)
Net profit for the year	**44,526**	**2,156**	**(12,031)**	**34,651**
Profit/Loss attributable to minority interests	—	—	(12)	(12)
Profit/Loss attributable to the Parent	**44,526**	**2,156**	**(12,043)**	**34,639**
ASSETS:				
Other intangible assets	101,154	135	—	101,289
Property, plant and equipment	132,620	18,070	4,919	155,609
Inventories	22,441	28,452	—	50,893
Trade and other receivables	388,407	9,528	4,243	402,178
Other non-current assets	—	—	48,620	48,620
Other current assets	—	—	298,015	298,015
Total Assets	**644,622**	**56,185**	**355,797**	**1,056,604**
LIABILITIES:				
Profit	44,526	2,156	(12,043)	34,639
Trade payables	457,361	11,042	5,446	473,849
Operating provisions	75,488	793	6,029	82,310
Other non-current financial liabilities	79,890	—	—	79,890
Other current financial liabilities	18,722	—	—	18,722
Equity (excluding profit for the year)	—	—	191,392	191,392
Other non-current liabilities	96,709	—	29,789	126,498
Other current liabilities	—	—	49,304	49,304
Total Liabilities	**772,696**	**13,991**	**269,917**	**1,056,604**

Assets and liabilities for general use and the results generated by them were not allocated to the other segments. Similarly, the reconciling items arising from the comparison of the result of integrating the financial statements of the various business segments (prepared using management criteria) with the CAF Group's consolidated financial statements were not allocated.

Secondary segments

Secondary segmentation is structured by geographical location:

• Spain

• Abroad

The reporting information relating to the secondary segments is as follows:

a) The breakdown of sales by geographical segment at 31 December 2007 and 2006 is as follows (thousands of euros):

Geographical Area	2007	%	2006	%
Spain	562,987	64.38%	561,607	69.70%
Abroad (*)	311,487	35.62%	244,120	30.30%
Total	**874,474**	**100%**	**805,727**	**100.00%**

(*) Most of the sales to foreign markets are performed by the Parent located in Spain.

b) The breakdown of net investments in property, plant and equipment by geographical segment at 31 December 2007 and 2006 is as follows (in euros):

Geographical Area	2007	2006
Spain	167,548,448	150,619,912
Abroad	4,374,549	4,985,662
Total	**171,922,997**	**155,609,574**

Also, in addition to the information in the foregoing table, the Group invested in the infrastructure required to provide the services relating to the concession in Mexico. These assets, in accordance with the applicable legislation, are recognised under "Other Intangible Assets - Administrative Concessions" (see Note 7). All these investments were made in Mexico.

7. Other intangible assets

The changes in the years ended 31 December 2007 and 2006 in other intangible asset accounts and in the related accumulated amortisation were as follows:

	Euros				
	Administrative Concessions	**Development Expenditure**	**Computer Software**	**Other**	**Total**
Balance at 31/12/05					
Cost	—	23,157,806	9,485,935	29,713	32,673,454
Accumulated amortisation	—	(11,771,913)	(8,250,315)	(18,696)	(20,040,924)
Net	**—**	**11,385,893**	**1,235,620**	**11,017**	**12,632,530**
Cost					
Inclusions in the scope of consolidation (Note 2-f) (*)	—	—	4,076	—	4,076
Additions (*)	97,126,140	1,348,867	117,619	—	98,592,626
Transfers to inventories (Note 11)	—	(5,540,760)	—	—	(5,540,760)
Disposals, retirements or reductions	—	(214,801)	(41,992)	(29,713)	(286,506)
Cost Balance at 31/12/2006	**97,126,140**	**18,751,112**	**9,565,638**	**—**	**125,442,890**
Inclusions in the scope of consolidation (Note 2-f) (*)	—	—	141	48,478	48,619
Additions (*)	97,757,537	803,955	649,334	—	99,210,826
Transfers to inventories (Note 11)	—	(1,389,795)	—	—	(1,389,795)
Disposals, retirements or reductions (*)	—	—	(168,921)	—	(168,921)
Cost at 31/12/07	**194,883,677**	**18,165,272**	**10,046,192**	**48,478**	**223,143,619**
Accumulated Amortisation					
Inclusions in the scope of consolidation (Note 2-f) (*)	—	—	—	—	—
Additions or charge for the year (*)	—	(3,455,011)	(718,760)	(4,874)	(4,178,645)
Disposals, retirements or reductions (*)	—	—	41,992	23,570	65,562
Accumulated Amortisation at 31/12/06	**—**	**(15,226,924)**	**(8,927,083)**	**—**	**(24,154,007)**
Inclusions in the scope of consolidation (Note 2-f) (*)	—	—	—	—	—
Additions or charge for the year (*)	—	(1,273,898)	(837,817)	—	(2,111,715)
Transfers	—	509,006	—	—	509,006
Disposals, retirements or reductions (*)	—	—	168,920	—	168,920
Accumulated Amortisation at 31/12/07	**—**	**(15,991,816)**	**(9,595,980)**	**—**	**(25,587,796)**
Net balance at 31/12/06	**97,126,140**	**3,524,188**	**638,555**	**—**	**101,288,883**
Net balance at 31/12/07	**194,883,677**	**2,173,456**	**450,212**	**48,478**	**197,555,823**

(*) Including exchange rate effect.

As discussed in Note 3-a, in 2007 and 2006 the Group transferred EUR 881 thousand and EUR 1,363 thousand, respectively, of capitalised net development expenditure relating to a project to a contract obtained that incorporates the technology developed (see Note 11).

The period additions to "Administrative Concessions" relate to the cost incurred in relation to the assets required to operate the concession in Mexico amounting to EUR 137,454 thousand (2006: EUR 119,554 thousand), net of the grants received amounting to EUR 39,696 thousand (2006: EUR 22,418 thousand). At 31 December 2007, this concession had not yet started to be operated. It is expected to start to be operated in 2008, since at 2007 year-end the percentage of completion of the related work was around 80%.

On 4 December 2003 and 24 June 2005, the Mexican Department of Communications and Transport (SCT) entered into two specific coordination agreements with the Mexican Government for the construction of the Suburban Railway in the metropolitan area of Mexico Valley.

On 12 July 2005, the Official Federation Gazette published the call notice and the general specifications for participating in the public call for tenders for the grant, of a concession to provide the scheduled public suburban rail passenger transport service (Cuautitlán-Buenavista route), in Mexico State and in Mexico City, and for the use and operation of the Federation's public domain property, which included the licenses to provide the necessary auxiliary services. Subsequently, modifications were issued on 20 July 2005 and 23 August 2005, which were notified to the participants.

On 25 August 2005, the SCT granted the concession to the subsidiary Ferrocarriles Suburbanos, S.A. de C.V.

The general terms and conditions of the concession are as follows:

– The concession will have a term of 30 years from the date on which the concession agreement is signed, after which the assets of the concession operator will be transferred to the concession grantor. The periods in which any events arise not attributable to the concession operator leading to a delay in commencement or to a suspension of the transport service will not be taken into account in the calculation of the concession term. The concession operator may request that the concession term be extended.

– The concession operator will be entitled to be granted obligatory rights of way to provide the transport service on the Cuautitlán-Buenavista and Cuautitlán-Huehuetoca sections of the General Northeastern Railway Link.

The concession operator must construct the railway works and perform all the construction, reconstruction and adaptation work and supply and install all the railway material, equipment and subsystems required for the start-up of the Suburban Railway, except the road and urban work, which will be the responsibility of the SCT, in coordination with the Mexico State and Mexico City Government authorities.

The Parent´s Directors, based on studies commissioned from third parties, consider that the future operation of the concession will make it possible to recover the net cost of the assets used therein.

The detailed terms and conditions of the concession are included in the general tender specifications.

8. Property, plant and equipment

The changes in the years ended 31 December 2007 and 2006 in property, plant and equipment accounts and in the related accumulated depreciation were as follows:

	Euros					
	Land and Buildings	Plant and Machinery	Other Fixtures, Tools and Furniture	Other Items of Property, Plant and Equipment	Advances and Property, Plant and Equipment in the Course of Construction	Total
Balance at 31/12/05						
Cost	143,453,872	140,753,184	10,345,775	14,581,438	—	309,134,269
Accumulated depreciation	(47,063,155)	(98,727,609)	(6,630,999)	(10,303,813)	—	(162,725,576)
Net	**96,390,717**	**42,025,575**	**3,714,776**	**4,277,625**	**–**	**146,408,693**
Cost or market value						
Inclusions in the scope of consolidation (Note 2-f) (*)	—	—	—	—	2,528,361	2,552,688
Additions (*)	4,780,149	13,652,083	626,216	1,253,967	60,585	20,373,000
Disposals, retirements or reductions (*)	(737,783)	(9,635,961)	(88,245)	(168,777)	—	(10,630,766)
Balance at 31/12/06	**147,496,238**	**144,789,946**	**10,883,746**	**15,670,315**	**2,588,946**	**321,429,191**
Inclusions in the scope of consolidation (Note 2-f) (*)	290,000	—	13,043	—	—	307,529
Additions (*)	6,442,276	19,597,298	1,068,023	1,433,627	2,781,362	31,322,586
Transfers	4,012,848	(1,087,637)	79,122	59,550	(4,034,111)	(970,228)
Disposals, retirements or reductions (*)	(466,745)	(256,754)	(2,423,968)	(206,961)	(4,974)	(3,359,402)
Balance at 31/12/07	**157,774,617**	**163,042,853**	**9,619,966**	**16,961,017**	**1,331,223**	**348,729,676**
Accumulated Depreciation						
Additions or charge for the year (*)	(2,649,161)	(8,103,848)	(713,230)	(1,552,259)	—	(13,018,498)
Disposals, retirements or reductions (*)	166,466	9,558,567	77,404	122,020	—	9,924,457
Accumulated Depreciation at 31/12/06	**(49,545,850)**	**(97,272,890)**	**(7,266,825)**	**(11,734,052)**	**–**	**(165,819,617)**
Inclusions in the scope of consolidation (Note 2-f) (*)	(10,207)	—	—	—	—	(10,207)
Additions or charge for the year (*)	(3,549,675)	(8,762,908)	(733,219)	(1,458,588)	—	(14,504,390)
Transfers	(48,764)	911,699	(19,329)	21,306	—	864,912
Disposals, retirements or reductions (*)	—	417,522	2,082,747	162,354	—	2,662,623
Accumulated Depreciation at 31/12/07	**(53,154,496)**	**(104,706,577)**	**(5,936,626)**	**(13,008,980)**	**–**	**(176,806,679)**
Net balance at 31/12/06	**97,950,388**	**47,517,056**	**3,616,921**	**3,936,263**	**2,588,946**	**155,609,574**
Net balance at 31/12/07	**104,620,121**	**58,336,276**	**3,683,340**	**3,952,037**	**1,331,223**	**171,922,997**

(*) Including the exchange rate effect.

In 2007 and 2006 the Group invested in its plants in order to increase and improve its production capacity.

In 2007 and 2006 the Group conducted an in-depth study of the items of property, plant and equipment and derecognised items that were fully depreciated and out of use with a gross cost of EUR 2,657 thousand and EUR 6,236 thousand, respectively.

The revaluations of property, plant and equipment made pursuant to Guipúzcoa Regulation 11/1996 and Guipúzcoa Decree 13/1991 increased the depreciation charge for 2007 and prior years by approximately EUR 275 thousand and EUR 4,103 thousand, respectively.

At 31 December 2007 and 2006, the Group had firm capital expenditure commitments amounting to approximately EUR 10,185 thousand and EUR 6,783 thousand, respectively.

The consolidated companies take out insurance policies to adequately cover their property, plant and equipment. At 31 December 2007 and 2006, the insurance policies taken out covered the carrying amount of the property, plant and equipment at those dates.

The gross cost of the full depreciated assets in use at 31 December 2007 and 2006 amounted to approximately EUR 123,776 thousand and EUR 118,543 thousand, respectively.

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 31 December 2007, the net amount of the grants received not yet allocated to profit or loss totalled EUR 4,979 thousand (31 December 2006: EUR 4,557 thousand). EUR 1,496 thousand were allocated to income in this connection in 2007 (2006: EUR 965 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying consolidated income statement.

Impairment losses

At 31 December 2007, the Group's Directors considered that there were no indications that the Group's various assets might have become impaired and, accordingly, no write-downs were recorded at that date (there were similarly no indications of asset impairment at 31 December 2006).

9. Investments accounted for using the equity method and non-current financial assets

The changes in the years ended 31 December 2007 and 2006 in "Investments Accounted for Using the Equity Method" and "Non-Current Financial Assets" were as follows:

	Euros								
	Investments in Associates	**Investment Securities**		**Other Financial Investments**		**Financial Instruments (Note 17)**	**Loans and Receivables**		**Total**
	Cost	**Amortised Cost**	**Allowance**	**Amortised Cost**	**Allowance**	**Market Value**	**Amortised Cost**	**Allowance**	
Balance at 31/12/05	**728,812**	**11,661,425**	**(709,705)**	**16,232,865**	**(5,029,113)**	**(1,390,035)**	**9,190,926**	**(2,251,594)**	**28,433,581**
Inclusions in the scope of consolidation (Note 2-f) (*)	—	3,180,560	—	—	—	—	—	—	3,180,560
Additions or charge for the year (*)	106,226	—	(11,600)	448,614	(2,794,000)	—	13,164,006	—	10,913,246
Disposals, retirements or reductions (*)	—	—	—	—	602,797	—	(6,855,426)	44,586	(6,208,043)
Transfers and write-offs	—	—	—	(2,631,319)	—	1,390,035	111,549	—	(1,129,735)
Balance at 31/12/06	**835,038**	**14,841,985**	**(721,305)**	**14,050,160**	**(7,220,316)**	**–**	**15,611,055**	**(2,207,008)**	**35,189,609**
Inclusions in the scope of consolidation (Note 2-f) (*)	1,050,000	3,110,072	—	—	—	—	—	—	4,160,072
Additions or charge for the year (*)	179,407	—	—	717,500	—	368,147	7,683,093	(168,883)	8,779,264
Disposals, retirements or reductions (*)	—	—	—	—	—	—	(9,133,517)	—	(9,133,517)
Transfers and write-offs	—	—	—	(3,063,086)	1,954,474	—	—	—	(1,108,612)
Balance at 31/12/07	**2,064,445**	**17,952,057**	**(721,305)**	**11,704,574**	**(5,265,842)**	**368,147**	**14,160,631**	**(2,375,891)**	**37,886,816**

(*) Including the exchange rate effect

a) Investments in associates

Relevant information on the investments in associates, accounted for using the equity method, is as follows (in euros):

Name	Location	Company Object and Business Activity	Ownership Interest Direct	Indirect	Investments in Associates	Basic Financial Data (1) Share Capital	Reserves and Retained Earnings	Profit/Loss for 2007	Revenue	Auditor
Compañía de Vagones del Sur, S.A.	Jaén (Spain)	Manufacture of freight wagons	—	35% (2)	1,050,467	3,010,000	—	1,335	—	Not mandatory
Sab Ibérica, S.A.	Madrid (Spain)	Sale of railway braking equipment	24.5%	—	536,988	84,140	839,436	1,268,212	13,657,108	Deloitte
Lander Simulation and Training Solutions, S.A.	Guipúzcoa (Spain)	Study and manufacture of simulators	—	40% (3)	378,980	150,250	609,175	188,026	1,611,746	SM Auditores
Asirys Vision Technologies, S.A.	Guipúzcoa (Spain)	Study and manufacture of automated production systems	—	26% (3)	98,010	209,090	165,258	2,610	279,600	SM Auditores

(1) After adjustments and unification for consolidation purposes (in euros).
(2) Through CAF Santana, S.A.
(3) Through CAF I+D, S.L.

	Euros 2007	2006
Beginning balance	835,038	728,812
Profits of companies	412,570	106,226
Dividends	(233,163)	—
Changes in the scope of consolidation	1,050,000	—
Ending balance	**2,064,445**	**835,038**

b) Non-current investment securities

"Non-Current Investment Securities" includes direct and indirect ownership interests of 5%, 7.6%, 15%, 20%, 10%, 5% and 5.2% in Alquiler de Trenes A.I.E., Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A., Arrendadora de Equipamientos Ferroviarios, S.A., Dano-Rail, S.Coop, Ferromovil 3000, S.L., Alquiler de Metros A.I.E. and Plan Azul 07, S.L., respectively, all of which are classified as assets available for sale.

At 31 December 2007, under a financing agreement entered into by Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A. and a bank on 16 February 2004, these assets had been pledged.

In 2006 10% of Ferromovil 3000, S.L. was acquired from a third party for EUR 3,180 thousand. The object of this company is mainly the acquisition and marketing of railway vehicles. At 31 December 2007, the EUR 333 thousand still payable in this connection were recognised under "Other Current Liabilities" in the consolidated balance sheet as 31 December 2007.

Trenes en Arrendamiento, A.I.E. was formed in 2005, with a share capital amounting to EUR 10,000 thousand. The Company was owned 95% by CAF, S.A. and 5% by Inversiones en Concesiones Ferroviarias, S.A. This company was subsequently transformed into a corporation operating under the name of Arrendadora de Equipamientos Ferroviarios, S.A. and 85% of the shares and related voting rights (80% previously held by CAF, S.A. and 5% previously held by Inversiones en Concesiones Ferroviarias, S.A.) were sold to a third party for no gain or loss for accounting purposes. In 2005 capital was increased by EUR 2,000 thousand, which was subscribed by its shareholders in proportion to their existing ownership interests. This company engages in the operating lease to a third party of vehicles manufactured by the Group. At 31 December 2006, EUR 1,065 thousand remained outstanding, which were paid in 2007.

Also, in 2007, through the subsidiary Inversiones en Concesiones Ferroviarias, S.L., the Group subscribed a capital increase at Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A. for EUR 1,449 thousand, which it subscribed and paid in proportion to its ownership interest of 7.6%.

In addition, in 2007, through the subsidiary Inversiones en Concesiones Ferroviarias, S.A., the Group acquired an ownership interest of 5.2% in a new company called Plan Azul 07, S.A. by contributing 5.2% of its share capital. The contribution plus share premium amounted to EUR 1,381 thousand, which had been paid in full at 31 December 2007.

All the investments were measured at cost, since their market value could not be determined reliably (see Note 3-d).

c) Other financial assets

"Current Financial Assets" and "Other Non-Current Financial Assets" include, inter alia, the investments that the Parent owns in the "Share Ownership Scheme", defined as a held-to-maturity investment.

In 2005 the Parent acquired a new asset amounting to EUR 14,273 thousand and recognised it under this heading. This asset is instrumented in certain rights making up a CAF share ownership scheme. These rights were acquired from Cartera Social, S.A. (see Note 14), a company in which CAF employees have equity interests and with respect to which eight employees or former employees of the Parent act as trustee, and whose company object is to promote permanent employees' ownership of CAF's share capital. Cartera Social, S.A. is the sole owner of these shares and is entitled to exercise all the related dividend and voting rights. Accordingly, CAF does not have any rights, obligations or risks with respect to the economic profit or loss that might arise at Cartera Social, S.A. The Parent undertakes to sell and the employees undertake to buy these rights in 84 similar monthly instalments. The aforementioned shares will be owned by Cartera Social, S.A. until the employee exercises his/her right, which cannot occur prior to termination of the employment relationship. During this period Cartera Social, S.A. will finance ownership of the shares essentially with the amount paid by CAF to purchase the aforementioned rights.

Since the Parent bought the aforementioned rights at a price that, net of the discount on the sale to its employees and taking into account the contribution of Cartera Social (based on a percentage of the cost of the right or of the dividend to be received over the duration of the plan), is higher than the sale price thereof, this scheme will give rise to a loss that will be incurred over the above-mentioned seven-year period. However, CAF has the option to unilaterally rescind the commitment undertaken to Cartera Social, S.A. and to its employees, in which case CAF will be entitled to a proportional refund of the amount of the rights acquired by it but not sold to its employees, and, accordingly, with no additional cost. CAF's Directors have undertaken not to unilaterally rescind this commitment in the next five years, i.e. until the Plan expires.

As a result of this commitment and, at 31 December 2007, in order reduce the cost of the rights acquired to their net recoverable amount, the Parent recognised a provision of EUR 6,620 thousand. At 31 December 2007, the portion of this asset that was expected to be sold within one year and the related provision were recognised under "Current Financial Assets" in the accompanying consolidated balance sheet at that date (see Note 13). In 2007 rights with a cost and a related allowance of approximately EUR 2,637 thousand and EUR 1,079 thousand, respectively, were sold (2006: approximately EUR 2,631 thousand and EUR 603 thousand, respectively) (see Note 13).

At the end of 2007 the Parent's Directors resolved to set up a new plan with similar terms and conditions to those of the previous plans and again undertook not to unilaterally terminate it in the next seven years. This new plan is made up of 171,747 rights. The cost for the Group, after discounting the contribution of the employees and that of Cartera Social through payment for the waiver rights, amounts to EUR 26,841 thousand, and this amount was recorded with a charge and a credit to "Other Operating Expenses" and "Non-Current Liabilities - Other Non-Current Financial Liabilities" in the accompanying consolidated income statement and consolidated balance sheet, respectively. On 4 January 2008, Cartera Social, S.A. acquired 171,747 shares of the Parent, representing 5.01% of its share capital, which cover the aforementioned rights.

d) Financial instruments

"Financial Instruments" includes the market value of the foreign currency rate hedges maturing at long term (see Note 17).

e) Loans and receivables

The CAF Group includes under "Loans and Receivables" mainly tax receivables relating to tax assets recognised (see Notes 3-m and 19), other non-current tax receivables and long-term guarantees provided. These receivables are recognised at amortised cost. The fair value of these assets approximates their amortised cost.

10. Balances and transactions with related parties

The detail of the transactions performed with associates and other related parties that were not eliminated on consolidation (see Note 2-f) is as follows:

	Euros					
	2007			2006		
Company	**Services Provided or Sales**	**Services Received or Purchases**	**Dividends Received**	**Services Provided or Sales**	**Services Received or Purchases**	**Dividends Received**
Sab Ibérica, S.A.	42,141	7,455,284	233,163	104,547	4,640,873	224,763
CAF I+D subgroup	—	—	—	—	83,578	—
Alquiler de Trenes, A.I.E.	—	—	—	92,305,675	—	—
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	4,038,650	—	—	12,092,018	—	—

As a result of the transactions performed in 2007, those performed in previous years and the advances granted, the Group's balances with investees that were not fully consolidated at 31 December 2007 and 2006 were as follows (see Note 2-f):

	Euros			
	31.12.07		31.12.06	
Company	**Accounts Receivable**	**Accounts Payable**	**Accounts Receivable**	**Accounts Payable**
Sab Ibérica, S.A.	13,741	635,477	360,144	687,114
CAF I+D subgroup		176,106	—	83,578
Metro de Sevilla, Sociedad Concesionaria de la Junta de Andalucía, S.A.	—	—	629,317	—
Alquiler de Trenes, A.I.E.	—	—	889,372	—
Other	(44,901)	327,887	—	169,187
	(31,160)	**1,139,470**	**1,878,833**	**939,879**

11. Inventories and construction contracts

The breakdown of inventories at 31 December 2007 and 2006 is as follows:

	Euros	
	31.12.07	**31.12.06**
Raw materials and other supplies (Note 21)	95,546,914	65,493,867
Work in progress and finished and semi-finished goods (Note 3-j)	620,016,587	424,155,360
Goods and work in progress whose settled costs do not exceed incurred costs	(724,888,423)	(458,252,504)
Advances to suppliers	28,254,377	19,496,458
	18,929,455	**50,893,181**

"Goods and Work In Progress Whose Settled Costs do not Exceed Costs Incurred" relates to the settlement of costs, including provisions, on the basis of the actual percentage of completion (see Notes 3-f and 12).

The Group deducts the grants received for the acquisition of "Work in Progress and Finished and Semi-Finished Goods" from the carrying amount of this item. The net amount of the grants received not yet allocated to income totalled EUR 3,776 thousand and EUR 3,369 thousand at 31 December 2007 (see Note 15) and 2006, respectively. EUR 2,216 thousand and EUR 1,672 thousand of grants related to income and to assets were charged to income in 2007 and 2006, respectively, and these amounts were recognised under "Change in Inventories of Finished Goods and Work in Progress" in the accompanying consolidated income statement.

Disclosures relating to the CAF Group's construction contracts, which account for 95.67% of the Group's revenue, are provided in Note 6 on segment reporting, within the Railway segment.

At 31 December 2007, the Group had firm raw material purchase commitments amounting to approximately EUR 791,397 thousand (see Note 26) (31 December 2006; EUR 684,821 thousand).

The consolidated companies take out insurance policies to adequately insure their inventories. At 31 December 2007 and 2006, the insurance policies taken out covered the carrying amount of the inventories at those dates.

12. Trade and other receivables

The breakdown of "Trade and Other Receivables" at 31 December 2007 and 2006 is as follows:

	Euros	
	31.12.07	**31.12.06**
Trade receivables - in euros	288,252,460	279,692,920
Trade receivables - in foreign currency (Note 3-h)	46,423,701	123,584,387
Impairment allowances (Note 3-d)	(272,814)	(1,153,554)
	334,403,347	**402,123,753**

These balances receivable arose mainly as a result of the recognition of the stage of completion, as described in Note 3-f. A portion of these balances (approximately 29%; 2006: 37%) have been billed to customers, mainly in the euro zone. At 31 December 2007, the main balances were with RENFE, Banco Español de Crédito and Societe des Transports amounting to EUR 63,708 thousand, EUR 17,438 thousand and EUR 11,383 thousand, respectively. The foreign currency receivables included mainly accounts receivable for the work performed for Metro México and Companhia Paulista de Trens for equivalent euro values of EUR 5,328 thousand and EUR 2,580 thousand, respectively. At 31 December 2006, the main balances were with RENFE, Atac, Spa. and Il Comune Di Roma amounting to EUR 42,680 thousand, EUR 33,249 thousand and EUR 13,759 thousand, respectively, and the foreign currency receivables related mainly to work performed for Enterprise Metro D´Alger and Sacramento Regional Transit amounting to EUR 30,026 thousand and EUR 2,330 thousand, respectively.

13. Current financial assets

The detail of "Current Financial Assets" at 31 December 2007 and 2006 is as follows:

	Euros	
	31.12.07	**31.12.06**
Time deposits	333,817,976	210,810,433
Foreign currency deposits	633,638	6,316,710
Other deposits (Note 16)	112,503,856	41,878,603
Other	1,637	1,917
Rights under the share ownership scheme (Note 9)	2,681,986	2,539,615
Allowance (Note 9)	(1,354,154)	(478,464)
	448,284,939	**261,068,814**

The balance of "Other Deposits" relates to the undrawn balance of the financing received in relation to the Suburban Railway Project (see Note 16). This undrawn amount is held in the Suburban Railway Master Trust as restricted cash usable only for the investments to be made in this project (see Note 7).

14. Equity

a) Share capital of the Parent

At 31 December 2007 and 2006, the Parent's share capital consisted of 3,428,075 fully subscribed and paid shares of EUR 3.01 par value each, all of which are listed on the stock exchange and are traded by the book-entry system.

The shareholder companies or entities holding over 3% of the Parent's share capital at 31 December 2007 were as follows:

	% of Ownership
Cartera Social, S.A. (Notes 9 and 13) (*)	24.55%
Gipuzkoa Donostia Kutxa	11.00%
Bilbao Bizkaia Kutxa	10.82%
Bestinver Gestión, S.A., S.G.I.I.C.	9.96%
BNP Paribas Securities Services	5.47%
Caja Vital	3.02%

(*) The shareholders of this company are or have been employees of the Parent (see Note 9).
The Group had recognised at 31 December 2007 a balance receivable of EUR 5,408 thousand.

At the Annual General Meeting on 7 June 2003, the shareholders resolved to empower the Board of Directors of the Parent to increase share capital by up to EUR 5,129,253 within five years on one or several occasions, respecting the pre-emptive subscription right. This authorisation has not yet been used. Also at the Annual General Meeting on 2 June 2007, the shareholders empowered the Board of Directors to acquire treasury shares within 18 months from that date. At the date of preparation of these consolidated financial statements this acquisition had not been made.

b) Share premium

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

c) Revaluation reserve

The changes in this reserve in 2007 and 2006 were as follows:

	Thousands of Euros				
	31.12.05	Change in Market Value	31.12.06	Change in Tax Rate (Note 18)	31.12.07
Revaluation of property, plant and equipment:	28,517	(42)	28,475	1,943	30,418
Land		—	—	—	
Revaluation reserve Law 9/1983	7,954	—	7,954	—	7,954
Revaluation reserve Guipúzcoa Decree 13/1991	11,379	—	11,379	—	11,379
Revaluation reserve Guipúzcoa Regulation 11/1996	8,701	—	8,701	—	8,701
	56,551	**(42)**	**56,509**	**1,943**	**58,452**

Revaluation reserves Law 9/1983 and Guipúzcoa Decree 13/1991

Pursuant to current legislation, the balances of these accounts are unrestricted as to their use.

Revaluation reserve Guipúzcoa Regulation 11/1996

This balance can be used to offset accounting losses and to increase share capital, and the remainder, if any, can be taken to restricted reserves. If this balance were used in a manner other than that provided for in Guipúzcoa Regulation 11/1996, it would be subject to tax.

d) Legal reserve

Under the Consolidated Spanish Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

e) Reserves and results of fully consolidated companies and companies accounted for using the equity method

The detail, by company, of their contribution to "Reserves of Fully Consolidated Companies and Companies Accounted for Using the Equity Method" in the consolidated balance sheets at 31 December 2007 and 2006 and to the consolidated profit for 2007 and 2006 is as follows:

	Euros			
	2007		2006	
	Reserves	Results	Reserves	Results
CAF, S.A.	129,759,698	81,504,610	99,997,462	32,500,817
Trenes de Navarra, S.A. (Sole-Shareholder Company)	(127,588)	18,045	—	(107,173)
Construcciones Ferroviarias de Madrid, S.L.	(649,136)	69,083	(35,951)	(399,061)
Construcciones Ferroviarias CAF-Santana, S.A.	(206,609)	142,066	(241,980)	50,196
CAF USA, Inc.	1,237,976	625,838	792,958	436,857
CAF México, S.A. de C.V.	2,644,211	(93,553)	2,400,239	157,975
CAF Brasil Ind. E C., S.A.	(329,723)	1,166,188	897,980	672,699
CAF Argentina, S.A.	280,921	279,193	108,370	268,985
CAF Irlanda, Ltda.	300,365	157,794	142,455	157,911
CAF Italia, S.R.L.	24,136	97,814	(4,384)	19,303
CAF I+D subgroup	1,528,747	2,753,587	1,032,980	479,165
Sermanfer subgroup	785,391	424,692	465,612	319,780
Inversiones en Concesiones Ferroviarias, S.A.	30,269	1,365,558	215,915	(1,543)
Urbanización Parque Romareda, S.A. (Sole-Shareholder Company)	65,478	3,884	53,570	11,908
Ferrocarriles Suburbanos, S.A. de C.V.	554,671	(1,371,927)	(123,751)	31,096
Constructora de Sistemas Ferroviarios, S.L.	58,695	6,687	(9,262)	68,382
Constructora Mex. del Fer. Sub., S.A. de C.V.	(262,211)	125,252	—	(250,405)
Nuevas Estrategias de Mantenimiento, S.L.	—	161,337	—	—
Lets Ingenieros, S.L.	—	(1,402)	—	—
Actren, S.A.	—	(49,715)	—	—
Centro Ensayos y Análisis Cetest, S.L.	—	(8,158)	—	—
Ibaia Energia, S.L.	—	6,861	—	—
Bizkaia Ferroviaria, S.L.	—	(32,840)	—	—
Sempere Componentes, S.L.	—	(28,885)	—	—
Desarrollo Software Miramon 4, S.L.	—	(6,589)	—	—
Sab Ibérica, S.A.	374,611	310,712	366,213	221,806
	136,069,902	**87,626,132**	**106,058,426**	**34,638,698**

f) Restricted reserves

The individual financial statements of the consolidated companies include reserves amounting to approximately EUR 41,406 thousand and EUR 39,371 thousand at 31 December 2007 and 2006, respectively, relating to the legal reserve, revaluation reserve, reserve for retired capital and other reserves which are restricted as to their use.

In view of the balance of the Parent's unrestricted reserves at 31 December 2007 with respect to the unamortised balance of development expenditure (see Note 7), there are no restrictions on the distribution of dividends.

g) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2007 and 2006 is as follows:

	Euros	
	31.12.07	**31.12.06**
CAF México, S.A. de C.V.	(470,972)	(127,757)
CAF Brasil Ind. e C., S.A.	1,137,964	641,904
CAF Argentina, S.A.	(332,661)	(103,896)
CAF USA, Inc.	70,471	(11,520)
CAF Irlanda, Ltda.	(36,985)	8,361
Sefemex, S.A. de C.V.	(29,335)	(15,227)
Ferrocarriles Suburbanos S.A. de C.V.	(4,021,142)	3,599,014
Constructora de Mex. del Fer. Sub, S.A. de C.V.	(231,438)	(34,152)
	(3,914,098)	**3,956,727**

h) Valuation adjustments

The amount recognised in this reserve relates to the valuation adjustments on derivatives designated as cash flow hedges.

i) Minority interests

The detail of the balance of "Equity - Minority Interests" on the liability side of the accompanying consolidated balance sheets and of the changes therein in 2007 and 2006 is as follows:

	Euros
Balance at 31 December 2005	2,658,625
Profit attributable to minority interests	11,762
Balance at 31 December 2006	**2,670,387**
Profit attributable to minority interests	674,493
Changes in the scope of consolidation (Note 2-f)	252,844
Other	(23,795)
Balance at 31 December 2007	**3,573,929**

j) Management of capital

The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital while ensuring a solid financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order to meet both debt refinancing needs and the investment plan financing requirements not covered by funds generated by the business activities carried on.

The Directors of the CAF Group consider that the fact that the gearing ratio with recourse to the Parent is minimal is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2007, most of the borrowings were directly assigned to activities such as the concession in Mexico (see Notes 3-a and 7). Gearing is taken to be the ratio of net financial debt to equity:

	Thousands of Euros	
	31.12.07	**31.12.06**
Net financial debt:		
Refundable advances	67,919	73,017
Bank borrowings - Non-current liabilities (Note 16)	161,232	96,709
Bank borrowings - Current liabilities (Note 16)	26,110	270
Current financial assets (Note 2-c)	(446,957)	(259,007)
Cash and cash equivalents	(24,212)	(9,898)
	(215,908)	**(98,909)**
Equity:		
Of the Parent	300,913	223,361
Minority interests	3,574	2,670
	304,487	**226,031**

15. Other non-current financial liabilities

Under the Programme to Foster Research and Technology (PROFIT), the Ministry of Science and Technology provided certain grants to the Group to conduct research and development projects in 2007 and 2006. This aid, which is recognised on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project, consists of:

– Grants to partially meet the expenses and costs of these projects.

– Refundable advances in the form of interest-free loans, which usually have an initial grace period of three years and are taken to income in a period of over 10 years.

The CDTI Resolution dated 28 October 2005 (Official State Gazette of 2 November 2005) regulating the official announcement of the CENIT programme states that aid is envisaged under the CENIT programme in the form of grants aimed at financing major industrial research projects of a strategic nature, of large scale and with far-reaching scientific and technical scope.

On 21 March 2006, the CAF Group, as leader of the consortium created with other companies in this connection, received the Provisional Resolution Proposal drawn up by the CDTI, awarding it grants totalling EUR 9,605 thousand (EUR 6,734 thousand relating to the CAF Group) for the development of new technology for 2006-2009. Each of the companies forming part of the consortium participates in the various phases of the project, together with the related subcontracting to technology centres. The CAF Group expects to incur total costs over the programme period of EUR 14,451 thousand, and the costs incurred at 31 December 2007 amounted to EUR 8,804 thousand (31 December 2006: EUR 4,298 thousand). At 31 December 2007 and 2006, the grants received in relation to the CENIT programme totalled EUR 3,276 thousand and EUR 1,375 thousand, and these amounts were deducted from "Inventories" (see Note 11).

Grants must be refunded together with the related interest if the R&D investments envisaged under these projects are not made.

The changes in 2007 and 2006 in relation to the aforementioned programmes were as follows:

	Euros
	Ministry of Science and Technology
Balance at 31/12/05	**61,637,037**
Additions	1,741,928
Transfers to short term (Notes 19 and 20)	(5,132,563)
Balance at 31/12/06	**58,246,402**
Additions	2,698,720
Transfers to short term (Notes 19 and 20)	(7,766,780)
Balance at 31/12/07	**53,178,342**

The detail of the accounts payable at short term is included in Notes 19 and 20.

In joint projects, the project coordinator is answerable to the Ministry of Science and Technology for the performance of the project and collects the total amount of the aid from the Ministry. The Group recognised under "Trade and Other Receivables" and "Trade and Other Payables" EUR 361 thousand and EUR 2,173 thousand, respectively (31 December 2006: EUR 5,687 thousand and EUR 20,592 thousand, respectively), in relation to the amounts receivable from and payable to third parties in connection with the joint projects.

At 31 December 2007, the maturity schedule was as follows:

	Thousands of Euros
2009	5,948
2010	6,159
2011	6,314
2012	6,141
2013 and subsequent years	28,616
	53,178

Also, at 31 December 2007 and 2006, the Group recognised EUR 1,551 thousand and EUR 14,471 thousand, respectively, under "Other Non-Current Financial Liabilities" relating to contributions (current and in progress) to external funds to cover the Group's legal and contractual obligations to certain of its employees (see Note 3-k).

16. Bank borrowings

The detail of the related headings in the accompanying consolidated balance sheets is as follows:

	Euros			
	2007		2006	
	Non-Current Maturity	**Current Maturity**	**Non-Current Maturity**	**Current Maturity**
Bank loans and credit accounts	161,231,993	26,031,044	96,709,370	243,137
Unmatured accrued interest	—	78,727	—	26,873
Total	**161,231,993**	**26,109,771**	**96,709,370**	**270,010**

Pursuant to IAS 39, the bank borrowings are presented in the balance sheet adjusted by the costs incurred in the arrangement of the loans.

In 2006 the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. (see Note 7) arranged two loans from Banco Santander, S.A., which remained outstanding at 31 December 2007, the terms and conditions of which are as follows:

– VAT loans for a maximum amount of MXP 250 million, earmarked to finance partially or in full any VAT payment. The term of these facilities was established at 30 months from 24 July 2006, and the interest rate was set at the Equilibrium Interbank Interest Rate published by the Bank of México + 1.25%. Each amount drawn down must be repaid within 90 calendar days from the date of each drawdown. At 31 December 2007 and 2006, EUR 10,919 thousand and EUR 8,362 thousand, respectively (MXP 175,542 thousand and MXP 119,114 thousand, respectively), had been drawn down against these loans.

– Financing agreement for a maximum amount equal to EUR 217 million (MXP 3,414 million) in relation to the application of forward exchange rates, paying fixed financing interest established in the financing agreement. The financing will be repaid in 28 half-yearly payments from 28 June 2008. At 31 December 2007, EUR 175,125 thousand (MXP 3,139,478 thousand), had been drawn down against this financing.

The subsidiary will continue to draw down the funds against these loans on the basis of the financing needs of the Suburban Railway Project (see Note 7).

The loans include certain restrictive clauses that limit the arrangement of new bank loans, the provision of guarantees, the fulfilment of tax-payment obligations, the sale of new fixed assets and other non-current assets, the reimbursement of capital and the achievement of certain financial ratios at the subsidiary. At 31 December 2007 and 2006, the subsidiary was meeting these conditions.

The unused amount drawn down is held in the Suburban Railway Master Trust (see Note 7) and is recognised as restricted cash under "Current Financial Assets" in the accompanying consolidated balance sheet (see Note 13).

These long-term loans include certain restrictive clauses limiting Ferrocarriles Suburbanos S.A. de C.V., inter alia, in respect of the obtainment of new banks loans, the provision of guarantees, the fulfilment of tax payment obligations, the sale of non-current assets, the reimbursement of capital the fulfilment of certain financial conditions, including, among others, the ratio of total liabilities to share capital. At 31 December 2007 and 2006, the subsidiary was meeting these conditions.

The two aforementioned loans of the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. are without recourse to the company's shareholders ("project finance"). The VAT loan is secured by the refunds to be made by the Mexican tax authorities of the input VAT borne during the construction period, which is not offset by output VAT since there was none during this period. The financing of EUR 217 million was secured by a contingent debt servicing fund amounting to USD 124 million, paid in cash by the Mexican Federal Fund FINFRA into the trust controlling the global cash position of Ferrocarriles Suburbanos, S.A. de C.V.

The repayment schedule envisaged in the financing agreement and for the VAT loans is as follows:

	Thousands of Euros
2009	15,171
2010	15,171
2011	15,171
2012	15,171
Subsequent years	99,270
	159,954

In addition to this financing, at 31 December 2007, the consolidated companies had been granted various credit lines by banks, basically in euros and bearing interest at market rates, largely tied to EURIBOR plus a market spread, with a limit of EUR 175,505 thousand. No significant amounts had been drawn down at that date (31 December 2006: EUR 179,005 thousand).

17. Derivative financial instruments

The CAF Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates (see Note 3-d). The CAF Group arranges foreign currency hedges in order to mitigate the potential adverse effect that changes in exchange rates might have on future cash flows relating to transactions and loans in currencies other than the functional currency of the company concerned.

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

	Maturity (in Currency)		
Sell at 31/12/07	**2008**	**2009**	**2010 and Subsequent Years**
Hedges:			
USD currency hedges	154,609,950	112,062,000	—
GBP currency hedges	26,994,834	22,963,594	10,834,105
YEN currency hedges	10,947,549,939	3,449,228,064	—
EUR currency hedges	29,329,681	—	—
CHF currency hedges	—	—	—
Currency hedges for other currencies	182,318	112,062,000	—

	Maturity (in Currency)		
Buy at 31/12/07	**2008**	**2009**	**2010 Subsequent Years**
Hedges :			
USD currency hedges	(54,593,072)	(76,861,784)	—
GBP currency hedges	(669,382)	—	—
YEN currency hedges	(2,028,882,240)	(450,000,000)	—
EUR currency hedges	(37,955,969)	(18,240,358)	—
CHF currency hedges	(5,521)	—	—
Currency hedges for other currencies	—	—	—

	Value at 31.12.07
Hedges:	
USD currency hedges	2,550,036
GBP currency hedges	144,584
JPY currency hedge	(3,857,861)
EUR currency hedge	404,686
CHF currency hedge	(140,103)
Currency hedges for other currencies	2,239
	(896,419)

	31.12.06 (Euros)	Maturity (in Currency) (*)		
	Current	**2007**	**2008**	**2009 and Subsequent Years**
Hedges:				
USD currency hedges	7,437,839	147,220,713	7,279,808	—
GBP currency hedges	276,109	1,833,397	—	—
YEN currency hedges	(4,463,962)	8,305,352,000	5,033,123,939	3,449,228,064
EUR currency hedges	(70,385)	2,122,849	2,274,593	—
CHF currency hedges	(343,927)	(1,431,591)	—	—
MXP currency hedges	36,487	(141,885,976)	—	—
Currency hedges for other currencies	15,914	—	—	—
	2,888,075			

(*) Net currency buy currency hedges are presented with a credit balance

In 2007, the CAF Group credited approximately EUR 2 thousand (2006: EUR 63 thousand) to the consolidated income statement relating to the ineffective portion of the hedging transactions.

18. Deferred taxes

At 31 December 2007, the companies composing the CAF Group basically had the last four years open for review by the tax authorities for the main taxes applicable to their business activities. In 2007 the Group was not subject to any tax audit or inspection.

The Parent files income tax returns with both the Spanish State tax authorities and the Guipúzcoa and Vizcaya provincial tax authorities on the basis of the volume of transactions carried out in each area. However, since it is subject to Guipúzcoa tax regulations, an income tax rate of 28% was applied in 2007.

Since 2007 the Parent has filed consolidated income tax returns pursuant to Guipúzcoa Regulation 7/1996, of 4 July, as part of tax group no. 03/07/G, of which Construcciones y Auxiliar de Ferrocarriles, S.A. is the Parent, the subsidiaries being as follows: Inversiones en Concesiones Ferroviarias, S.A., CAF I+D, S.L., Constructora de Sistemas Ferroviarios, S.L., Sasismag, S.A., Traintic, S.L., Gestión, Elaboración de Manuales Industriales, Ingeniería y Servicios Complementarios, S.L., Ibaia Energia, S.L., Sempere Componentes, S.L., Bizkaia Ferroviaria, S.L., Trainelec, S.L., Nuevas Estrategias de Mantenimiento, S.L. and Centro de Ensayos y Análisis Cetest, S.L.

The companies will file consolidated income tax returns indefinitely provided that they continue to meet the requirements or unless they expressly decide otherwise using the related business taxation status notification form.

The reconciliation of the Parent's accounting profit for 2007 and 2006 to the taxable profit for income tax purposes is as follows:

	Thousands of Euros	
	31.12.07	**31.12.06**
Accounting profit (before tax)	113,768	50,210
Permanent differences, net (Notes 3-d, 3-k, and 3-l)	(8,283)	18,637
Net increases and decreases arising on temporary differences and accelerated depreciation (Notes 3-d, 3-k, 7 and 20)	54,564	34,233
Tax consolidation adjustments	(558)	(25,770)
Taxable profit	**159,491**	**77,310**

The difference between the tax charge allocated to 2007 and the tax payable for that year, which is presented under "Deferred Tax Assets" and "Deferred Tax Liabilities" on the asset and liability sides, respectively, of the accompanying consolidated balance sheet, arose as a result of the following:

– Temporary differences arising on the difference between the carrying amount of certain assets and their tax base. The most significant differences arose on the measurement of derivatives and the revaluation of assets.

– Temporary differences relating to 28% of the allowance for the rights under the share ownership scheme and to provisions that were not tax deductible in the year in which they were recognised.

– Temporary differences relating to 28% of the amount by which the depreciation taken for tax purposes exceeds that taken for accounting purposes as a result of the tax benefits relating to unrestricted and accelerated depreciation provided for by Guipúzcoa Regulations 6/1988, 7/1996 and 11/1993.

The detail of these balances and of the changes therein is as follows:

	Thousands of Euros				
	31/12/05	**Additions**	**Disposals**	**Transfers**	**31/12/06**
Deferred tax assets:					
Provisions temporarily not deductible	2,584	9,192	(2,145)	197	9,828
Share ownership scheme (Note 9)	1,409	911	(197)	—	2,123
Start-up expenses	216	334	(53)	—	497
Cash flow hedges (Note 17)	827	982	(827)	—	982
	5,036	**11,419**	**(3,222)**	**197**	**13,430**
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Note 7)	4,132	1,291	(3,019)	—	2,404
Cash flow hedges (Note 17)	503	595	—	—	1,098
Revaluation of land (Note 14)	13,730	43	—	—	13,773
Tax credit for the establishment of companies abroad	—	7,216	—	—	7,216
	18,365	**9,145**	**(3,019)**	**—**	**24,491**

	Thousands of Euros				
	31/12/06	**Additions**	**Disposals**	**Other**	**31/12/07**
Deferred tax assets:					
Provisions temporarily not deductible	9,828	6,470	(851)	—	15,447
Share ownership scheme (Note 9)	2,123	7,515	(302)	—	9,336
Elimination of profits on consolidation (* *)	—	8,612	—	—	8,612
Start-up expenses	497	—	(217)	—	280
Cash flow hedges (Note 17)	982	—	(199)	—	783
	13,430	**22,597**	**(1,569)**	**—**	**34,458**
Deferred tax liabilities:					
Unrestricted and accelerated depreciation (Note 7)	2,404	320	(921)	—	1,803
Cash flow hedges (Note 17)	1,098	—	(389)	—	709
Revaluation of land (Note 14)	13,773	—	—	(1,944)(*)	11,829
Tax credit for the establishment of companies abroad	7,216	—	(1,843)	—	5,373
Other- Tax payables	—	1,920	—	—	1,920
	24,491	**2,240**	**(3,153)**	**(1,944)**	**21,634**

(*) With a charge to reserves.

(**) Profit obtained by Group companies on construction relating to the concession in Mexico.

Also, in 2007 the Group recognised EUR 9,999 thousand under “Non-Current Assets - Non-Current Financial Assets” in relation to deferred tax assets arising on other items (see Note 9).

Also, in calculating the income tax payable for 2007, the Group deducted tax credits amounting to EUR 27,228 thousand, of which EUR 8,500 thousand had been recognised under “Non-Current Financial Assets - Loans and Receivables” in the accompanying consolidated balance sheet at 31 December 2006. The difference between the income tax estimated and settled for 2006 gave rise to the final recognition of additional tax assets amounting to EUR 2,090 thousand and a net reduction in the income tax expense of approximately EUR 1,642 thousand.

In addition to the content of Note 3-m, there are tax assets (amounting to approximately EUR 17,000 thousand) earned by the Parent that will be recognised to the extent that they can be deducted in the coming years based on the limits and deadlines provided for in current legislation.

The legislation applicable to the 2007 income tax settlement is Guipúzcoa Regulation 7/1996, of 4 July, with the amendments introduced by Guipúzcoa Decree-Regulation 3/2007, of 29 December, in force at year-end.

That Guipúzcoa Decree was repealed on 11 January 2008 by the Guipúzcoa Parliament, although the Guipúzcoa authorities consider that the repeal has not rendered the Decree null and void as a matter of law.

No appeal for judicial review has yet been filed against this Guipúzcoa Decree at the related court.

In this regard, Guipúzcoa Decree-Regulation 3/2007 provides, inter alia, for a reduction of the income tax rate, which had been 32.6% until 31 December 2006, to 28% for tax periods years beginning on or after 1 January 2007.

The directors consider that no material additional tax liabilities will arise for the Group as a result of the years open for review and the matters disclosed in the preceding paragraphs.

19. Tax receivables and payables

The breakdown of “Tax receivables and Payables” at 31 December 2007 and 2006 is as follows:

	Thousands of Euros							
	31.12.07				31.12.06			
	Assets		Liabilities		Assets		Liabilities	
	Non-Current	Current	Non-Current	Current	Non-Current	Current	Non-Current	Current
Social security taxes	—	44,423	—	4,051,780	—	336,402	—	3,222,551
Regular taxes								
VAT	—	13,828,319	—	17,859,019	—	11,137,957	—	8,424,313
Other	—	813,561	—	222,644		1,042,039	—	591,033
Personal income tax withholdings	—	38,351	—	4,879,514	—	—	—	3,221,998
Income tax (Note 3-m)	—	1,606,482	—	21,851,988	—	1,008,228	—	18,114,544
Grants receivable	—	1,941,537	—	—	—	1,797,715	—	—
Unused tax relief and tax credits (Notes 3-m and 9)	7,776,000	4,478,000	—	—	7,185,000	1,315,000	—	—
	7,776,000	**22,750,673**	—	**48,864,945**	**7,185,000**	**16,637,341**	–	**33,574,439**

20. Short-term provisions

The changes in "Short-Term Provisions" (see Note 3-o) in 2007 and 2006 were as follows (in euros):

	Warranty and Support Services, Penalties, etc (Note 3-o)	Other Provisions (Notes 3-m, 3-o, 9, 15 and 19)
Balance at 01/01/06	**21,137,582**	**18,382,902**
Net charge for the year (Note 3-o)	49,851,154	204,710
Transfers	—	(7,266,367)
Balance at 31/12/06	**70,988,736**	**11,321,245**
Net charge for the year (Notes 3-o and 18)	37,188,078	(4,893,043)
Transfers	—	390,448
Balance at 31/12/07	**108,176,814**	**6,818,650**

The provisions at 31 December 2007 relate basically to provisions for reliability (approximately EUR 34 million), for penalties relating to delivery deadlines (EUR 29 million) and for warranties (EUR 38 million), relating to the vehicles delivered and under warranty.

21. Expenses

a) Procurements

	Euros	
	2007	**2006**
Purchases (*)	307,497,639	326,617,784
Work performed by other companies	35,053,541	22,904,586
Change in inventories (Note 11)	(28,369,031)	(62,079)
	314,182,149	**349,460,291**

(*) 84.72% in euros and the remainder mainly in US dollars.

b) Other operating expenses

The fees for the audit of the individual and consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. and subsidiaries amounted to EUR 434 thousand. EUR 360 thousand of this amount related to the annual audit of companies audited by member firms of the Deloitte worldwide organisation. In addition, fees were billed for other professional services amounting to EUR 558 thousand, of which EUR 544 thousand relate to the principal auditor.

c) Information on the environment

The most significant investments made in systems, equipment and facilities designed for environmental protection and improvement and included under property, plant and equipment (see Note 8) amounted to EUR 961 thousand in 2007 and to EUR 720 thousand in 2006.

EUR 95 thousand of grants were received in this connection in 2006. In 2007 the Group did not receive any environmental grants.

At 31 December 2007, the Group did not have any litigation in progress or contingencies relating to environmental protection and improvement. The Group companies' directors do not expect any material liabilities to arise as a result of the Group's environmental activities and, accordingly, the accompanying consolidated balance sheet does not include any provisions in this connection.

22. Average headcount and staff costs

The equivalent average headcount in 2007 and 2006 was as follows:

	Average Number of Employees	
Professional Category	**2007**	**2006**
Employees	1,324	1,208
Manual workers	2,997	2,808
Total (*)	**4,321**	**4,016**

(*) At 31 December 2007 and 2006, there were 4,415 permanent employees and 4,141 temporary employees.

The breakdown, by gender, of the average headcount in 2007 is as follows:

Professional Category	**Men**	**Women**
Employees	1,053	271
Manual workers	2,963	34
Total	**4,016**	**305**

Also, all the directors are men.

The detail of staff costs is as follows (in euros):

	2007	**2006**
Wages and salaries (Notes 3-k, 3-l and 3-ñ)	148,365,407	143,536,050
Social security costs	44,001,775	37,100,895
Other costs (Notes 3-k and 3-ñ)	7,762,678	7,586,831
	200,129,860	**188,223,776**

23. Information on the Board of Directors

a) Directors remuneration and other benefits

In 2007 and 2006 the Parent recognised approximately EUR 799 thousand and EUR 727 thousand of remuneration and attendance fees earned by its Directors, whereas the Directors of the subsidiaries did not earn any remuneration in this connection. At 31 December 2007 and 2006, neither the Parent nor the subsidiaries had granted any advances, guarantees or loans to current or former directors and, except as indicated in Note 3-k, the Group did not have any pension or life insurance obligations to them.

b) Detail of investments in companies engaging in similar activities and performance, as independent professionals or as employees, of similar activities by the directors, pursuant to Article 127 ter.4 of the Spanish Companies Law

The following members of the Board of Directors and their representatives had ownership interests in companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the company object of CAF:

– Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián (Gipuzkoa Donostia Kutxa) disclosed that it has a 95% interest in Alquiler de Trenes, AIE, an economic interest grouping set up with CAF (see Note 9) and confirmed that it does not hold any other equity investments in other entities with identical, similar or complementary activities.

The other members of the Board of Directors declared that they do not hold any investments in companies engaging in identical, similar or complementary activities, except for those held by certain directors in discharging their duties on behalf of the Parent (see Note 9), which are detailed below:

Company	Activity Performed	Positions or Functions at the Company Concerned	Name
CAF I+D, S.L. (Sole-Shareholder Company)	Research and development	Sole Director	José María Baztarrica
Construcciones Ferroviarias CAF-Santana, S.A.	Manufacture of railway equipment	Chairman	José María Baztarrica
Construcciones Ferroviarias CAF-Santana, S.A.	Manufacture of railway equipment	CEO	Alejandro Legarda
Construcciones Ferroviarias de Madrid, S.L. (Sole-Shareholder Company)	Manufacture of railway equipment	Sole Director	José María Baztarrica
Ferrocarriles Suburbanos, S.A. de C.V.	Provision of all manner of land transport services	Chairman	Alejandro Legarda
Constructora de Sistemas Ferroviarios, S.L.	Design and supply of railway line operating equipment	Chairman	Alejandro Legarda
Urbanizaciones Parque Romadera, S.A. (Sole-Shareholder Company)	Ownership of shares	Sole Director	Alejandro Legarda
Sasismag, S.A. (Sole-Shareholder Company)	Preparation of operating manuals	Sole Director	Andrés Arizcorreta
Traintic, S.L.	Manufacture of electronic products	Sole Director	Andrés Arizcorreta
Ipar Sistemas 2002, S.L.	Holding company	Sole Director	Andrés Arizcorreta
CAF USA, Inc.	Manufacture of railway equipment	Chairman	José María Baztarrica
CAF México, S.A. de C.V.	Manufacture and maintenance of equipment	Chairman	José María Baztarrica

Company	Activity Performed	Positions or Functions at the Company Concerned	Name
CAF Argentina, S.A.	Maintenance of railway equipment	Chairman	José María Baztarrica
CAF Irlanda, Ltda.	Maintenance of railway equipment	Sole Director	José María Baztarrica
CAF Italia, S.R.L.	Maintenance of railway equipment	Sole Director	José María Baztarrica
Constructora Mex. del Ferrocarril Suburbano, S.A. de C.V.	Design and supply of railway line operating equipment	Chairman	Alejandro Legarda
Trenes de Navarra, S.A. (Sole-Shareholder Company)	Manufacture of railway equipment	Sole Director	Andrés Arizcorreta
Asiris Vision Technologies, S.A.	Study and manufacture of automatic production systems	Director	Andrés Arizcorreta
Lander Simultation and Training Solutions, S.A.	Study and manufacture of simulators	Director	Andrés Arizcorreta
CAF Chile, S.A.	Manufacture of railway equipment	Chairman	Andrés Arizcorreta
Desarrollo Software Miramon 4, S.L.	Software development	Sole Director	Andrés Arizcorreta
Sempere Componentes, S.L.	Marketing of components	Sole Director	Andrés Arizcorreta
Bizkaia Ferroviaria, S.L.	Engineering services	Sole Director	Andrés Arizcorreta
Centro de Ensayos y Análisis Cetest, S.L.	Trials and accreditation	Sole Director	Andrés Arizcorreta
Trainelec, S.L.	Electronic power equipment	Sole Director	Andrés Arizcorreta
Nuevas Estrategias de Mantenimiento, S.L.	Technology solutions	Sole Director	Andrés Arizcorreta
Ibaia Energia, S.L.	Power generation	Sole Director	Andrés Arizcorreta
Compañía de Vagones del Sur, S.A.	Manufacture of freight wagons	Director	Alejandro Legarda

24. Remuneration of senior executives

Since the senior executives of the Parent are also members of its Board of Directors, their staff costs (remuneration in cash or in kind, social security costs, etc.) were disclosed in Note 23 above.

In 2007 and 2006 there were no other transactions with senior executives other than in the ordinary course of business.

25. Guarantees and other contingent liabilities

At 31 December 2007, the guarantees provided to the Group by banks and insurance companies for third parties amounted to EUR 1,344,457 thousand (31 December 2006: EUR 1,238,018 thousand) relating basically to technical guarantees in order to fulfil the orders received. Of this amount, EUR 88,891 thousand related to guarantees for the refundable grants and advances granted by the Ministry of Science and Technology (see Note 15) and other government agencies. Also, of this total, EUR 38,501 thousand are securing the funds paid in advance by FINFRA to the subsidiary Ferrocarriles Suburbanos, S.A. de C.V. (see Note 7) and EUR 55,201 thousand are securing the contribution of venture capital to this subsidiary.

In 2007 the CAF Group did not identify any material contingent liabilities.

26. Events after the balance sheet date

At 31 December 2007, the firm backlog, net of progress billings, amounted to approximately EUR 3,410,124 thousand (see Note 11). At 29 February 2008, this amount was EUR 3,305,537 thousand.

27. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

Approval by the Board of Directors

JOSÉ Mª BAZTARRICA GARIJO	Chairman and CEO
ANDRÉS ARIZKORRETA GARCÍA	Chief Executive Officer
ALEJANDRO LEGARDA ZARAGÜETA	Managing Director
GREGORIO ROJO GARCÍA	Director for Vital Kutxa
JOSÉ ANTONIO MUTILOA IZAGIRRE	Director for Gipuzkoa Donostia Kutxa
LUIS MIGUEL ARCONADA ECHARRI	Director
JOSÉ MIGUEL DE LA RICA BASAGOITI	Director
FERMÍN ARRESE ARRATIBEL	Director
XABIER GARAIALDE MAIZTEGUI	Director
ALFREDO BAYANO SARRATE	Secretary

Certificate issued by the Secretary attesting that, following the authorisation for issue of the consolidated financial statements and consolidated directors' report of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. and Subsidiaries composing the CAF Group (Consolidated) for the year ended 31 December 2007 by the Board of Directors at its meeting on 31 March 2008 (the consolidated financial statements for the year ended 31 December 2006 had been duly formalised in the past), the directors have signed this document, consisting of 73 sheets numbered sequentially from 2,385 to 2,457, inclusive, all approved by the Secretary, who also signs them, countersigned by the Chairman and signed by each of the directors at the end of the document.

San Sebastián, 31 March 2008

Approved by

THE CHAIRMAN	THE SECRETARY OF THE BOARD
JOSÉ Mª BAZTARRICA GARIJO	ALFREDO BAYANO SARRATE

Resolutions submitted by the Board of Directors for approval by the Shareholders' meeting

Ordinary Shareholders' Meeting to be held at the Company's registered office in Beasain, Guipúzcoa, at 12.00 am on June 7 2008, at first call, and, if appropriate, at the same time and place the following day.

First. Examination and approval, if appropriate, of the 2006 financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A., and of the 2007 consolidated financial statements of Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries, together with the management report.

Second. Approval of the proposal for the distribution of 2007 income, with a distribution of dividends for a gross amount of €8.5 per share.

Third. Authorize the Company' Board of Directors for the derivative acquisition of treasury stock under the terms required by law, rendering null and void the authorization previously granted under a resolution of the General Meeting held on 2 June 2007.

Fourth. Appointment and re-election of directors.

Fifth. Re-election of auditors.

Sixth. Authorize the Board of Directors, with the scope necessary, to record in public deed those of the foregoing resolutions which so require, with express powers to clarify, rectify or supplement said resolutions in accordance with the mercantile registrar's verbal o written requirements, and to perform any acts necessary to record these resolutions in the mercantile register.

Seventh. Approval of the minutes of the meeting.

Proposed distribution of income

Distribution of income after taxes of 103,081 thousands of Euros: 29,139 thousands of Euros for dividends, 73,942 thousands of Euros to voluntary reserves.

Board of Directors

JOSÉ Mª BAZTARRICA GARIJO	Chairman and CEO
ANDRÉS ARIZKORRETA GARCÍA	Chief Executive Officer
ALEJANDRO LEGARDA ZARAGÜETA	Managing Director
GREGORIO ROJO GARCÍA	Director for Vital Kutxa
JOSÉ ANTONIO MUTILOA IZAGIRRE	Director for Gipuzkoa Donostia Kutxa
LUIS MIGUEL ARCONADA ECHARRI	Director
JOSÉ MIGUEL DE LA RICA BASAGOITI	Director
FERMÍN ARRESE ARRATIBEL	Director
XABIER GARAIALDE MAIZTEGUI	Director
ALFREDO BAYANO SARRATE	Secretary

At 31 March 2008 the Board of Directors held 19.39% of the capital stock.

Supplementary Information 2003-2007
Balance Sheets
Statements of Income
Stock market Information

Balance Sheets

as of December 31st 2007, 2006, 2005, 2004, 2003* (Euros)

Assets	2007	2006	2005	2004	2003*
Non-current assets:					
Start-up expenses	—	—	—	—	45.288
Other intangible assets, net	197,555,823	101,288,883	12,632,530	14,119,310	17,596,420
Property, plant, and equipment, net	171,922,997	155,609,574	146,408,693	138,020,380	81,420,454
Investments in associates	2,064,445	835,038	728,812	847,250	439,778
Non-current financial assets	35,822,371	34,354,571	27,704,769	19,439,557	16,610,012
Deferred tax assets	34,457,599	13,430,075	5,035,632	1,111,286	1,730,018
Total non-current assets	441,823,235	305,518,141	192,510,436	173,537,783	117,841,970
Current assets:					
Deferred charges	—	—	—	—	—
Inventories	18,929,455	50,893,181	67,389,443	15,789,726	29,452,853
Trade and other receivables	334,403,347	402,123,753	324,952,312	432,941,127	319,301,588
Receivable from associated companies	(31,160)	54,234	3,433	17,896	932,444
Other current financial assets	6,549,907	2,712,565	1,575,711	603,464	2,773,568
Derivative financial instruments	—	6,877,996	5,672,599	—	—
Short-term investments	448,284,939	261,068,814	33,551,989	23,679,429	49,815,394
Tax receivables	22,750,673	16,637,341	12,448,881	9,464,363	5,718,570
Cash and cash equivalents	24,211,416	9,898,296	1,903,693	1,434,482	3,226,237
Other current assets	323,946	819,940	580,316	456,633	315,002
Total current assets	855,422,523	751,086,120	448,078,377	484,387,120	411,535,656
Total Assets	1,297,245,758	1,056,604,261	640,588,813	657,924,903	529,377,626

* Financial statements prepared under the previous accounting regulations (Spanish GAAP) and presented using the format of the current accounting regulations (IAS) for ease of comparison.

Equity and Liabilities

Equity and Liabilities	2007	2006	2005	2004	2003*
Equity:					
Attributable to the Parent Company					
Capital stock	10,318,506	10,318,506	10,318,506	10,318,506	10,318,506
Additional paid - in capital	11,863,347	11,863,347	11,863,347	11,863,347	11,863,347
Revaluation reserve	58,452,208	56,508,846	56,551,093	56,551,093	28,034,368
Reserves at fully consolidated companies and companies accounted for by the equity method	136,069,902	106,058,426	92,901,039	83,264,234	77,949,849
Translation differences	(3,914,098)	3,956,727	1,163,690	(59,288)	(2,750,817)
Equity adjustments due to changes in fair value	496,558	16,234	(984,460)	—	—
Net profit for the year	87,626,132	34,638,698	18,143,386	14,038,123	11,605,548
Equity attributable to the Parent Company	**300,912,555**	**223,360,784**	**189,956,601**	**175,976,015**	**137,020,801**
Minority interests	**3,573,929**	**2,670,387**	**2,658,625**	**1,958,626**	**1,879,346**
Total equity	**304,486,484**	**226,031,171**	**192,615,226**	**177,934,641**	**138,900,147**
Non-current liabilities:					
Deferred revenues	—	—	—	—	**5,014,021**
Long-term provisions	**871,967**	**1,301,422**	**1,362,416**	**1,225,961**	**830,969**
Payable to credit institutions	**161,231,993**	**96,709,370**	**37,307**	**82,035**	—
Derivative financial instruments	—	**3,989,921**	**221,052**	—	—
Other long-term liabilities	**91,369,859**	**79,896,655**	**62,185,062**	**66,551,837**	**47,363,700**
Deferred tax liabilities	**21,633,686**	**24,491,394**	**18,365,236**	**16,290,365**	**2,432,730**
Other non-current liabilities	—	—	**1,065,000**	**103,337**	**2,104,850**
Total non-current liabilities	**275,107,505**	**206,388,762**	**83,236,073**	**84,253,535**	**52,732,249**
Current liabilities:					
Payable to credit institutions	**26,109,771**	**270,010**	**184,805**	**148,653**	**47,197**
Derivative financial instruments	**1,264,566**	—	**70,943**	—	—
Other current financial liabilities	**18,024,968**	**18,721,553**	**16,031,736**	**11,326,433**	**13,939,818**
Payable to associated companies	**1,139,470**	**939,879**	**595,993**	**2,832,918**	**1,329,363**
Trade and other payables					
Advances received on orders	257,496,435	249,166,941	115,849,837	172,906,288	133,407,850
Trade payables purchases and services	233,876,639	223,742,192	153,203,784	154,280,807	140,998,531
	491,373,074	**472,909,133**	**269,053,621**	**327,187,095**	**274,406,381**
Short-term provisions	**114,995,464**	**82,309,981**	**39,520,484**	**23,956,498**	**23,574,121**
Other payables					
Taxes payable	48,864,945	33,574,439	28,549,001	20,789,189	7,023,780
Other current liabilities	15,879,511	15,459,333	10,730,931	9,495,941	12,410,549
	64,744,456	**49,033,772**	**39,279,932**	**30,285,130**	**19,434,329**
Total current liabilities	**717,651,769**	**624,184,328**	**364,737,514**	**395,736,727**	**332,731,209**
Equity and liabilities	**1,297,245,758**	**1,056,604,261**	**640,588,813**	**657,924,903**	**529,377,626**

Statements of Incomes

as of December 31st 2007, 2006, 2005, 2004, 2003* (Euros)

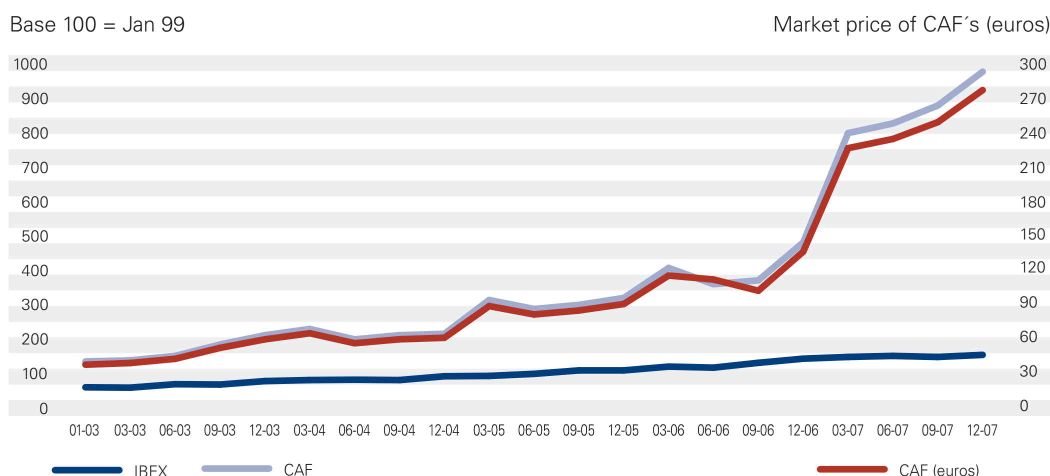
(Debit) Credit	2007	2006	2005	2004	2003*
Continuing operations:					
Net sales	874,474,241	805,727,489	680,798,488	578,012,441	495,479,207
+ / - Change in finished goods and work-in-progress inventories	(111,891,634)	(82,481,259)	268,750	(52,454,882)	(79,804,672)
Raw materials and other consumables use	(314,182,149)	(349,460,291)	(396,262,259)	(284,154,227)	(195,072,687)
Other operating revenues	2,011,416	1,168,225	886,785	751,638	1,685,542
Personnel expenses	(200,129,860)	(188,223,776)	(165,880,761)	(152,155,231)	(133,177,214)
Other operating expenses	(149,106,673)	(125,849,385)	(79,908,049)	(57,283,347)	(60,323,417)
Depreciation and amortization expenses	(15,119,851)	(18,019,073)	(16,599,384)	(15,178,859)	(13,458,120)
Operating income	**86,055,490**	**42,861,930**	**23,303,570**	**17,537,533**	**15,328,639**
Financial revenues	12,236,430	1,624,829	4,883,652	2,989,354	3,323,119
Financial expenses	(715,618)	(2,897,796)	(5,768,806)	(3,063,815)	(4,535,016)
Financial loss	**11,520,812**	**(1,272,967)**	**(885,154)**	**(74,461)**	**(1,211,897)**
Share in the income of companies accounted for by the equity metho	387,068	297,788	204,558	216,954	213,501
Other gains and losses (net)	27,750	632,726	26,547	(215,300)	73,186
Income before tax	**97,991,120**	**42,519,477**	**22,649,521**	**17,464,726**	**14,403,429**
Corporate income tax	(9,690,495)	(16,369,017)	(8,880,797)	(5,420,251)	(3,819,985)
Positive adjustments to income tax	–	8,500,000	4,411,490	2,056,470	1,062,310
Income from continuing operations	**88,300,625**	**34,650,460**	**18,180,214**	**14,100,945**	**11,645,754**
Income for the year	**88,300,625**	**34,650,460**	**18,180,214**	**14,100,945**	**11,645,754**
Attributable to:					
Shareholders of the Parent Company	87,626,132	34,638,698	18,143,386	14,038,123	11,605,548
Minority interests	674,493	11,762	36,828	62,822	40,206
Earning per share (in euros)					
Basic	25,56	10,10	5,29	4,10	3,39
Diluted	25,56	10,10	5,29	4,10	3,39

* Financial statements prepared under the previous accounting regulations (Spanish GAAP) and presented using the format of the current accounting regulations (IAS) for ease of comparison.

Stock market information

As of December 31, 2007, the Parent Company's capital stock amounted to €10,318,506 and consisted of 3,428,075 fully subscribed and paid listed shares of €3.01 par value each, traded by the book-entry system.

Trend in the market price of CAF´s shares



	2007	2006	2005	2004	2003*
Stock market capitalization					
Figures as of December 31	947,862,738	466,218,200	312,983,248	212,540,650	202,599,233
Per-share data					
Net earnings per share	25.56	10.10	5.29	4.10	3.39
Net income before taxes	28.58	12.40	6.61	5.09	4.20
Dividend per share	8.5	3.20	1.60	1.37	1.09
Per-share net book value	87.78	65.16	55.41	51.33	39.97
Stock market ratios					
PER	9.56	11.14	15.38	14.60	13.56
Average price/EBITDA	8.3	6.25	6.96	6.28	5.42
MV/BV (average price/book value)	2.78	1.73	1.47	1.16	1.15
Dividend yield	3.48%	2.84%	1.97%	2.29%	2.37%
Pay-out	33.25%	31.67%	30.23%	33.46%	32.20%

* Consolidated data 2003.
2004, 2005, 2006 and 2007 consolidated data, IAS.

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